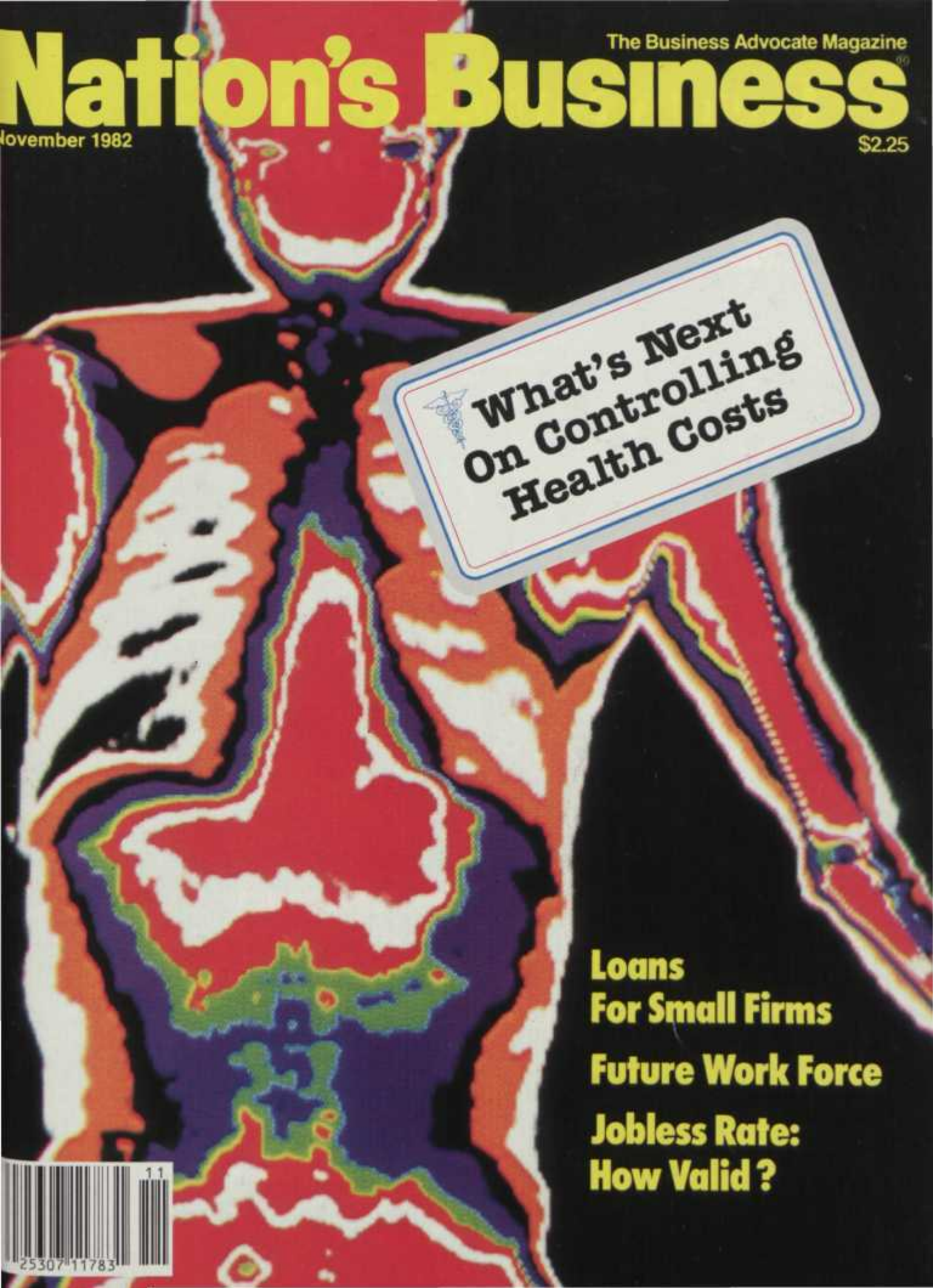
The Business Advocate Magazine

Nation's Business

November 1982

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November 1982
Vol. 70, No. 11

PHOTO: HOWARD SOCHUREK—WOODFIN CAMP



Cover Story **22**

Will health costs be cut by competition? Here are actions to watch for. The photo: a color density scan.

PHOTO: FRED WARD—BLACK STAR



Criticized Committees **28**

Congressional appropriations panels miss deadlines and are accused of budget-busting. There may be reforms.

PHOTO: DENNIS BRACK—BLACK STAR



Watching Campaign Funds **33**

Frank Reiche heads an embattled federal agency that oversees a political battleground—campaign spending.

PHOTO: GEORGE TAMES



More Lenders **66**

Robert Laughlin (left) provided small business with one of many new loan sources it is finding these days.

Those Football Salaries **14**

There has been a torrent of lamentation about high salaries paid to athletes who went on strike for more, but James J. Kilpatrick argues that there shouldn't have been.

Small Firms on Low Plateau **38**

The Heller/Roper Small Business Barometer shows that a decline in chief executive officers' expectations for their firms has reached a plateau. There's no sign of a near-term upturn.

Regulation: Act of Mercy **41**

The drive for passage of an act that would make regulation less burdensome may be stalled in the House Rules Committee, but it is not stilled. The legislation's prospects are good.

Competing With Japanese **46**

Motorola Chairman Robert Galvin says his firm can hold its own in a fair competition with Japanese companies, and his management philosophy could help other firms do the same.

Your Future Factory **49**

A special report on economic development highlights computerized manufacturing technology that will make it possible for machinery to produce good parts only.

Why Enterprise Zones **54**

Rep. Jack Kemp (R-N.Y.) writes about the drive for federal legislation to stimulate inner cities' economies by using tax incentives to stimulate entrepreneurship.

Work Force of the Future **58**

Millions of jobs will be wiped out by technological change in coming years. Other millions of jobs will be created. Business will have to learn how to deal with a changing work force.

Jobless Rate: How Valid? **62**

Unemployment figures are much in the news. How are they arrived at? How meaningful are they? This article answers the first question and reports varying answers to the second.

Federal Lending's Impact **72**

High interest rates have been attributed to inflation, Federal Reserve policy and budget deficits. The real culprit, however, may be federal loan and loan guarantee programs.

Taking a Successful Flier **74**

William Adaska is producing ultralight aircraft that are much like the Wright brothers', and he is making money at it. He started in his garage with one employe. Today his plant has 100.

Weak Business Leaders **76**

Under the "Law of Diminishing Competence," the weak lead the weaker at many an American company. Here are suggestions on how to keep this law from functioning at your business.

Adept at an Ancient Art **85**

The life-style of some business people centers on the bow and arrow in their off-hours. Archery, thousands of years old, constantly draws new recruits attracted by its thrills.

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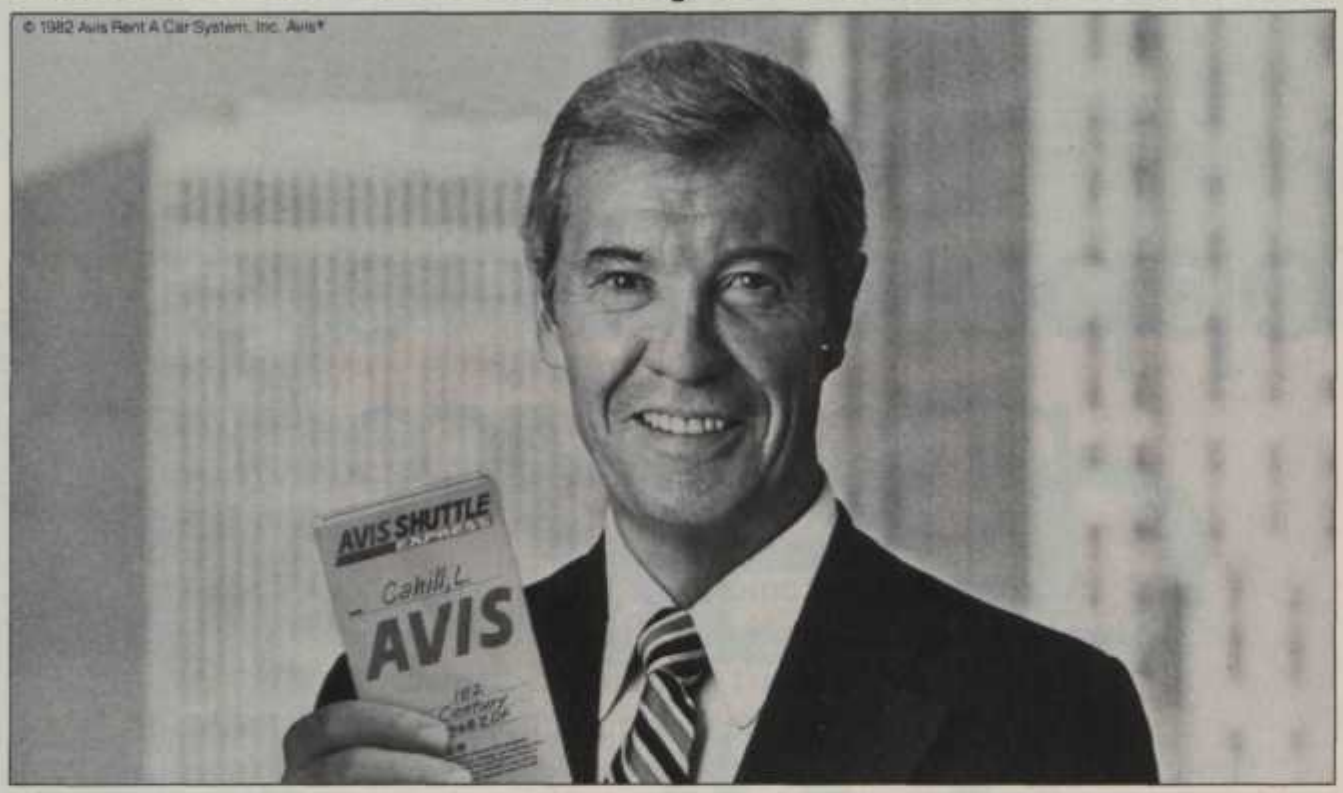
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WASHINGTON LETTER

▶ MORE TAX HIKES coming? Such hints are being dropped by two congressmen most directly involved, Senate Finance Committee Chairman Robert Dole (R-Kans.) and House Ways and Means Committee Chairman Dan Rostenkowski (D-Ill.). Their committees write tax legislation. Dole talks mostly about further "loophole" closing, the rationale he used in sponsoring $100 billion tax hike this year. Rostenkowski speculates that individual tax rates may have to go up.

▶ HOTTEST PROSPECTS, if taxes are increased next year: further scaling back of accelerated depreciation; cutback or repeal of R&D tax credit and allowances for intangible drilling costs; reduction of business travel and entertainment deductions; limit on amount of nonbusiness, nonmortgage interest that can be deducted from personal income; cap of $200 a month on untaxed employer contributions to employe health plan (anything more would be taxable to employe); limit on indexing of personal income tax brackets to cost of living; general tightening up of tax code to increase compliance.

▶ LEAKS from National Commission on Social Security Reform suggest that its report, expected at midmonth, will recommend acceleration of currently scheduled payroll tax increases to solve looming liquidity problem. (Present rate of 6.70 percent is now programed to reach 7.65 percent in 1990.) Some scaling back of rate at which benefit payments rise may also be included. President Reagan reportedly opposes a tax increase. But White House has incentive to resolve issue quickly, to hold down size of fiscal 1984 deficit. Budget Director David Stockman is said to be working full time trying to develop new administration Social Security policy.

▶ LEGISLATION likely to make floor of Congress during lame-duck session convening November 29: remaining 11 appropriations bills, apportionment of liability in price-fixing antitrust cases, bankruptcy code reform, eminent domain authority for builders of coal slurry pipelines, Federal Trade Commission reauthorization, patent term restoration, reciprocal market access (foreign trade) and regulatory reform.

▶ AMONG THE APPROPRIATIONS to be considered in lame-duck session is one for troubled Federal Election Commission (see story on page 33). One of FEC's accountants, Michael Rupenthal, pleaded guilty on October 7 to embezzling $556,296 of FEC's funds, which commission is unable to recover. As result, several senators are expected to argue that FEC's "carelessness" should be punished by further cuts in tentatively approved $9.7 million budget.

▶ DEREGULATORY PRIORITIES of Reagan administration will shift next year from emphasis on revising agency rules and procedures to emphasis on revising underlying statutes. Cooperation of Congress will be needed for that. Getting attention first: surface and maritime transportation, and energy transmission.

▶ NEXT ENERGY SECRETARY? Departing Secretary James Edwards recommends W. Kenneth Davis, his deputy. Davis is widely respected in energy circles but could have serious disadvantage from White House perspective: He is former

executive of Bechtel, Inc. So are Secretaries Caspar Weinberger (Defense) and George Shultz (State). Reagan administration, criticized for having two cabinet members from giant California construction firm, is not likely to try for three. Another possibility: Donald Hodel, under secretary of Interior.

▶ RUMOR PERSISTS that Budget Director David Stockman will leave administration after presentation early next year of fiscal 1984 budget. He denies it. More on personnel changes: White House Communications Director David Gergen is thinking about resigning. Deputy Chief of Staff and Reagan friend Michael Deaver, who was planning to leave, is now postponing a decision. Also postponing departure is Alice Rivlin, director of Congressional Budget Office and Stockman's opposite number on Capitol Hill. Her second four-year term expires January 3, but she will probably stay until June. Fed Chairman Paul Volcker's term expires next summer. A likely replacement: Fed Vice Chairman Preston Martin.

▶ THREAT of fines and prison for those who hire illegal aliens has receded. Senate passed bill (S. 2222) in August to provide such penalties. House version (H.R. 6514) emerged from Judiciary Committee just before adjournment and became entangled in jurisdictional dispute. It has been referred to four other committees. Chances for action in lame-duck session are rated slim. However, experts tracking this legislation say that it will be hard to defeat if it comes back, as expected, next session.

▶ PENALTIES to prevent employers from hiring illegal aliens have not been effective in other countries, according to recent study by General Accounting Office. Study will provide much-needed ammunition for groups opposing efforts to establish such penalties here.

▶ EMBARGO on American technology for Soviet natural gas pipeline to Western Europe has hurt U.S. more than U.S.S.R. That's opinion of 62 percent of top executives at major corporations, according to poll by Research & Forecasts, New York. Sixty-six percent have low opinion of any trade embargo as means of furthering U.S. foreign policy objectives. Asked which methods are preferable for dealing with Soviet Union, most of 104 executives interviewed favored combination of detente and military buildup.

▶ EXIT SMSA. That ubiquitous urban data base, the Standard Metropolitan Statistical Area, is being replaced by three new classifications. Biggest urban areas will be known as Consolidated Metropolitan Statistical Areas; only 25 to 30 of these. Major subdivisions of CMSAs will be called Primary Metropolitan Statistical Areas. Remainder of former SMSAs--medium-size cities--will become Metropolitan Statistical Areas. Makeup of new groupings, with associated data, will be announced in batches in December, March and May. Change should provide business users with more precise, more useful data. Experts believe that old SMSAs--323 of them--were too varied.

▶ PUZZLED by rapid changes in business tax law? It's all sorted out in new publication from U.S. Chamber's Tax Policy Center, "The 1982 Tax Law: What It Does to You and Your Business." In clear, nontechnical language, this book explains changes made by Tax Equity and Fiscal Responsibility Act of 1982 and by Subchapter S Revision Act of 1982. Also summarizes other major changes affecting 1982 and 1983 returns. Price is $5 for single copies, $4 each for 10 to 99 and $3 each for 100 or more. Order from: U.S. Chamber of Commerce, Washington, D.C. 20062.

▶ AMAZING COINCIDENCE. Latest Census Bureau figures reveal that suburbs of Washington account for five of top 11 localities in per capita income, nationwide. Eliminate Alaska, which has unusually high cost of living, and D.C. area has five of top eight.



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Amending Kilpatrick

Re: "Underneath the Liberal Label" [James J. Kilpatrick, October].

Mr. Kilpatrick says: "The conservative cause is poorly served ... by efforts to require prayer in public schools." The obvious implication is that the prayer amendment submitted by President Reagan will *require* prayer in public schools and it will invoke the compulsory power of the state to force students to pray. This is absolutely untrue!

In fact, the opposite is now true. The compulsory power of the state *forbids* prayer in public schools.

I quote President Reagan:

"The amendment I propose will remove the bar to school prayer established by the Supreme Court and allow prayer back in our schools.

"However, the amendment also expressly affirms the right of anyone to refrain from prayer. The amendment will allow communities to determine for themselves whether they wish to participate in prayer."

BUD STANLEY
Camarillo, Calif.

"Underneath the Liberal Label" gladdened my heart. It's very nice to know that others ponder the same philosophical mysteries as oneself. I have been telling my friends for years now—some had their fingers in their ears—that, in general, a liberal is one who desires to spend *your* money for *his* causes.

GEORGE S. TURNER
President
DiversiTech Corporation
Conyers, Ga.

More ERA debate

Re: "Equal Rights Amendment, RIP" [James J. Kilpatrick, September].

It is true that the Equal Rights Amendment cannot put women in the boardroom. However, it just may be the key that lets them out of the laundry room.

The problem with selective law reform, as Kilpatrick suggests, is that men are selecting which laws to reform. The purpose of ERA is to ensure that the private sector will not be dissuaded from exercising its moral suasion.

ALBERT SEGAL
Greenlawn, N.Y.

Defining terms

Re: "Kennedy and Taxes" [Letters to the Editor, September].

Peter DiFoggio's observation that Sen. Edward Kennedy (D-Mass.) is not living in the real world is accurate. Taxing productive citizens more to give to the nonproductive (not counting the aged, blind and those truly unable to help themselves) is pure stupidity.

However, DiFoggio makes an erroneous statement when he says that we are a democracy. We are a republic. *Democratic* means favoring social equality, which is next to socialism. A republic is basically a government in

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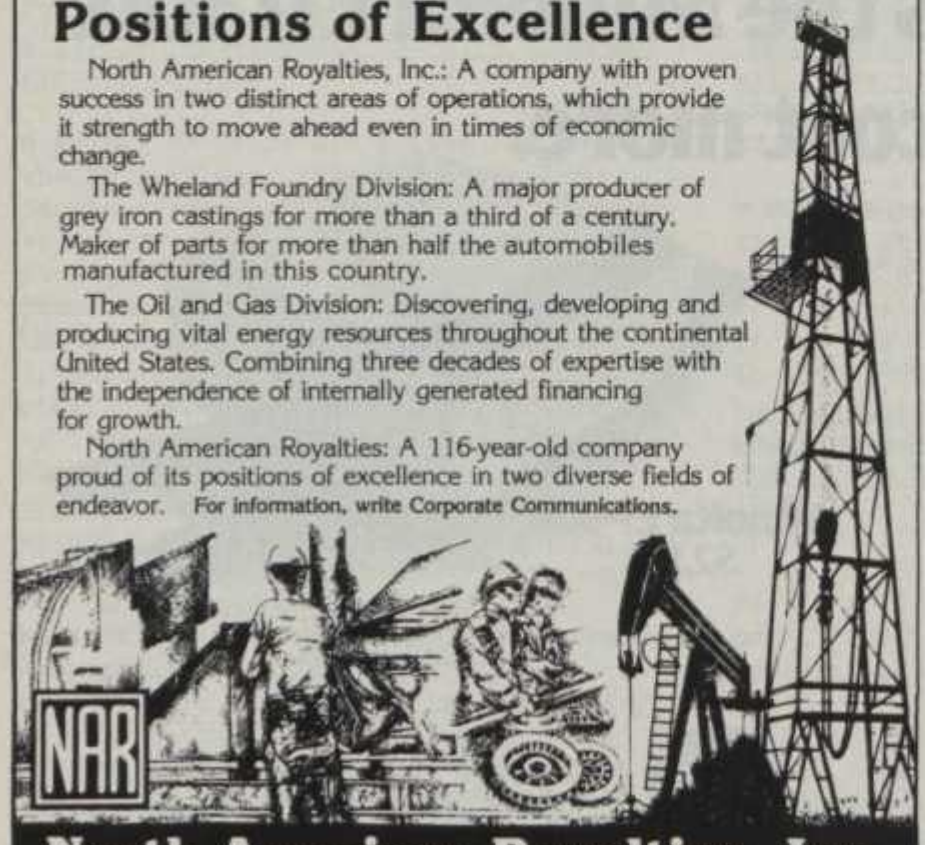
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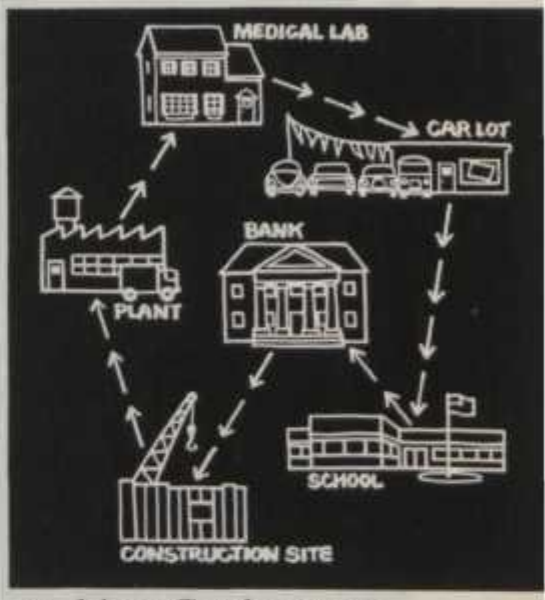
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Democracy and socialism are not mutually exclusive and in fact are not appropriate for comparison. *Democracy* denotes a governmental form predicated largely on the method of selection of lawmakers and on the method of adoption of new laws. *Socialism*, on the other hand, describes an economic system predicated on the method of the government's acquisition of funds and distribution of benefits. MICHAEL LEJUNE
Houston, Tex.

The 30-day cure

Forgive my snickering at your item reporting that "the National Traffic Safety Administration is going after drunk drivers ... by helping local governments set up comprehensive drunk driver control programs" [Outlook, October].

The cure for drunk driving is already known and is used in Sweden, where drunk drivers are given 30 days in jail. Not maybe. Not just if they kill several people. Not just if they are poor and lack influence. Not just after the fourth offense. Not just when the judge is a mean critter. But from the first infraction, whoever the offender is. In Sweden there is good compliance with the law. WARREN SNYDER
Evanston, Ill.

Reckless lending

Arch Shroyer assails the banking industry in his letter [October]. He cites the SBA's report that 62 percent of its direct-loan applicants, who were previously turned down by banks, proved to be good credit risks. Mr. Shroyer draws the conclusion that bankers must not be risk takers.

The SBA direct-loan program offers loans at interest rates well below those prevailing in the marketplace. Therefore, some of our more astute business owners have learned to circumvent the "system." They accomplish this by *asking* for a letter of rejection from a bank and then taking their loan request directly to the SBA.

A recent report critical of SBA lending practices suggests that the default rate for all direct loans is approaching 60 percent. If this percentage is correct, then one could conclude that out of every 100 direct-loan applicants, 38 percent are rejected as not being creditworthy, 37 percent are approved and later default, and 25 percent prove to be good risks. I cannot name any industry or any segment of our economy that will tolerate a 37 percent default rate. RON MILLER
First National Bank
Bloomington, Ind.

The Nicklaus family

Re: George Frederick's comments regarding Jack Nicklaus' sons being in college on athletic scholarships [Letters to the Editor, October].

Both boys earned their scholarships on their own, without any help from Jack. Neither were they given scholarships because they were Jack's sons. If Mr. Frederick knew the family as I do, he would know that they would never accept one red cent of the taxpayer's money for any reason.

R.W. FORSYTH
Astronaut Trampolines
Norcross, Ga.

The view from London

The front cover of your September issue says it all, the story ["A Housing Era Ends"] wasn't even required. As an American citizen living and working in London, your front cover frightens me. If people in America could only see how people in England live in a welfare state, they would soon realize that the American dream to own one's "castle" must not only be protected but must be achieved no matter what the cost.

DOUGLAS G. BEAN
International Sales Manager
Martin-Decker Overseas Corporation
London, England

Editor's note: The cover to which Mr. Bean refers showed the one-family detached home on a large lot as a museum piece because of economic factors that encourage construction of multiple housing units with little open space surrounding them.

Buckling down to buckling up

Re: "Focus on States and Seat Belts" [Outlook, October].

The only way the American people will begin to use their seat belts is when they become convinced it is in their best interest to do so. We continue to believe that the accident that cripples and kills always happens to the other guy. The American people will not get the message until it affects their pocketbooks.

If the insurance industry gave credit or reduced rates for customers who used seat belts or who were not injured in accidents because of their use, maybe the public would get the message.

RICHARD JENNINGS
Houston, Tex.

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GENERAL ELECTRIC

BY JAMES J. KILPATRICK

Of Greenbacks and Quarterbacks

THE GREAT football strike of 1982 produced a torrent of indignant lamentations about the high salaries paid to professional athletes, compared with the lesser salaries paid to other mortals.

Everywhere I traveled during the first few days of the players' strike, I saw letters to the editor voicing the same complaint. Why should a noseguard be paid as much for an afternoon's work as an oral surgeon earns in a year? It isn't fair! Down in Houston, Dr. Lois DeBakey renewed her caustic comments on the irrationality of it all.

Well, if I may borrow a rhetorical question made famous by Jimmy Carter, who ever said that life is fair? Who ever said the marketplace is rational?



Who ever said the marketplace is rational?

Dr. DeBakey has been raising her eloquent voice on this topic for the past several years. She is one of the most literate ladies in our land, a stylist and semanticist, a professor of scientific communication at Baylor College of Medicine. As they say, she is an even-tempered person; she stays mad. Writing in the *Houston Chronicle* last April, she put together a blistering indictment of the salaries paid to athletes and entertainers.

"Do these pros invest more time and money than physicians in education and training? Does their work require longer hours or more intelligence, skill or patience than medical practice? Is their performance more socially beneficial? Do they have a higher overhead, worse headaches with office management and government regulations or larger malpractice insurance premiums?"

Good questions, all of these, but with deference to Dr. DeBakey, I would argue that the questions are irrelevant to the fundamental issue. At the heart of the matter lies the nature of a free society.

Let me offer a few rhetorical questions, not so highly charged: Is an outfielder worth a million dollars a season? Is a famous actor worth a million dollars a picture? Is a police officer worth $25,000 a year? Is a rural high-school principal worth $10,000 a year? Is a baby-sitter worth $3 an hour? And one more question: Do we believe in the economic function of a free marketplace, or do we not?

For in the end, this is what we are talking about. It is all very well to speak abstractly of social values, of the worth of a surgeon as opposed to the worth of a shortstop. In a free marketplace, these fulminations are so much hot air. A determination of value or worth depends entirely on the old, inexorable laws we are taught in freshman economics—the law of supply and demand, the law of diminishing returns, the law of the seller who is willing to sell and the buyer who is willing to buy.

As consumers, all of us are an integral part of the whole process. As a tennis fan, I willingly would have paid $50 to watch Connors whip McEnroe at Wimbledon. I might pay $25 to watch Valenzuela pitch for the Dodgers, five bucks, tops, to watch a soccer star. I wouldn't pay 50 cents to listen to a rock group play noise to chew gum by. I would mortgage the farm to own a piece of sculpture by Henry Moore, but six bits, for my taste, would buy all the doodles Jackson Pollack ever dripped. Every one of us has a different set of values—different measures of worth—and it is this diversity that makes the economic world go 'round. We pays our money, as the countryman says, and we takes our choice.

To her credit, Dr. DeBakey is not sore at the athletes or the entertainers. She does not blame them for getting while the getting is good. Her resentment is directed toward a system that does not pay people "according to their true worth," and she is impatient with a society of consumers who "cannot practice good sense in establishing upper limits on what we will pay for products." But it seems to me that little is gained by railing against this kind of injustice or by protesting the giddy sense of values of a free people who will buy what they damned well please.

IS THE system bad? I deny the proposition altogether, for the alternatives are infinitely worse. We could, I suppose, in the holy name of the Constitution's commerce clause, enact laws fixing all prices and wages. We have done it before, and we could do it again. We do it now, explicitly, as to a busboy's pay and a surgeon's fee. We do it indirectly through progressive income taxes and social programs intended to redistribute the wealth. But if we ever get to the point that some Federal Board of Cultural Arbiters dictates the worth of a placekicker or the value of a plastic surgeon, you can kiss a free society goodbye. What's the worth of a noseguard? It's what the marketplace says it is, and neither more nor less. □

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Opportunity in Federal R&D Is Growing

Small high-tech firms will soon be able to capitalize on the Small Business Innovation Development Act, which requires all federal agencies with research and development budgets exceeding $100 million a year to allocate to small companies a percentage of R&D funds.

Percentages are tiny this fiscal year, only two tenths of 1 percent for civilian agencies—such as the Environmental Protection Agency, National Aeronautics and Space Administration, and National Science Foundation—and one tenth of 1 percent for the Defense Department. But they will rise annually. The estimated $45 million that will flow to small firms in fiscal 1983 could reach $450 million in 1987, when all agencies with large research budgets must allocate 1.25 percent to them.

The Small Business Administration will publish a master list in January of topics and problem areas that agencies wish to explore. Firms will then apply directly to the soliciting agency.

If chosen, a small company can receive up to $50,000 for a feasibility study and $500,000 for full-scale R&D.

Not only is the law designed to give small firms a crack at the federal R&D market, but it will permit them to exploit the results of their federal work in the commercial marketplace. In most cases, the company must find private-sector financing for such exploitation.

President Reagan said in signing the act last July:

"Small business is the tonic for what ails this country. We're showing our resolve to unleash this most innovative sector."

To get a master schedule, write: SBIR, U.S. Small Business Administration, 1441 L Street, N.W., Washington, D.C. 20416.

PHOTO: LOU JONES—UMPHOTO



A new law opens doors for small companies specializing in advanced technology.

SBA Officials Urge Jobs Program Reform

A program that gives tax credits to business for hiring people who have particular trouble getting jobs has been generally unsuccessful among small firms, two officials of the Small Business Administration's office of advocacy say. They urge reforms.

The targeted jobs program, recently extended for two years, gives credits for hiring welfare recipients, Vietnam veterans, the handicapped and ex-convicts, among others.

Frank Swain, the SBA's chief advocate, and George Guttman, a specialist in tax analysis, say the program is too complicated for small businesses. Guttman and Swain propose tying the credits to a percentage of an employer's unemployment compensation fund tax base instead of, as they now are, to a percentage of wages.

Monthly calculations using an easy-to-understand formula would serve as an incentive to keep on the payroll workers hired under the program.

It is important that small firms make use of the program because they are labor-intensive, Guttman says. He says, "Small business can provide a significant amount of the job training unskilled people need." If a restructured program were widely used, he says, it would cost the Treasury about $2 billion a year. But he says that would be worthwhile. Guttman and Swain say that the tax code now tilts in favor of capital investment over training people and that there should be more of a balance.

Whenever the program is revised, a massive public information campaign among small business would be needed, the two officials say. Studies show that most small firm owners don't know the current targeted jobs program even exists.

PHOTO: STACY PICK—UMPHOTO



What kind of tax credit will spur the creation of small business jobs?

Tax Compliance Will Be Taxing

Last summer's tax package "will undoubtedly be an expensive nightmare for the small businessman," says an accountant for Main Hurdman, a national accounting firm that specializes in small business clients.

Frank Gaffney, director of tax services, says restaurants, construction contractors, brokerage firms, bankers and small, publicly held corporations will be hard-hit by the Tax Equity and Fiscal Responsibility Act of 1982. The law "threatens to bury these businesses under a mountain of paper work" and will force many of them to turn to electronic data processing to keep up with record-keeping requirements, he says.

Banks, brokers and small corporations must gear up to begin deducting 10 percent of interest and dividend payments next July, he says. Restaurants and bars with 10 or more employes must estimate and report the amount of tips employes receive. Contractors won't know how to calculate construction period interest and taxes until the Internal Revenue Service finalizes the applicable rules.

Though the nation's smallest businesses don't have tax advisers on their payrolls, Gaffney says tax records will have to be in order or "trouble is coming from the IRS."

Twelve questions you'd better ask before buying a telephone answering machine. Only Panasonic Easa-Phone™ answers them all.

1. Is it sophisticated enough to handle all my message situations? Yes! This Panasonic Easa-Phone™ answering machine is about the smoothest operator around. An electronic microprocessor found in all of our machines oversees an incredible array of functions.

2. Can I be sure I won't lose a message? Yes! Panasonic has an important safeguard. It has a second announcement. When the incoming message tape is full, the electronic brain switches automatically to the second announcement. That tells your callers their message isn't being recorded, or to call back later, or even call you at another number.

3. Can I get my calls in Rome, Ga., when my phone's in Rome, Pa.? Yes! Even if you're in Rome, Italy. With a Panasonic remote control, you can get messages from any phone anywhere in the world. You can also review, repeat, or skip messages. Even leave a marker so you won't hear old messages next time you call in.

4. Can I change the announcement messages when I'm away? Yes! You can change the announcements as often as you change plans and you can do it a lot more easily. Just phone them in!

5. Can a caller leave a long message? Yes! Callers can talk as long as there's tape. Or be limited to 30 seconds. Or leave no messages at all, when you just want callers to hear your announcement.

6. Can I vary the length of my announcement? Yes! As short as five seconds. As long as 45 minutes.

7. Does it use standard tape? Yes! Panasonic machines use standard leader cassettes. So it's easy to replace a cassette, just pop in another instead of running off to a service center.

8. Can I use my machine to screen calls? Yes! You can hear who's calling and then decide whether or not you want to talk.

9. Can I and other people use the same answering machine? Yes! Many people can use it. All they have to have is our remote control device*. You can even pick up and leave each other messages. With its remote capability, no one has to be there. Its four-button remote control gives complete versatility. Two outgoing messages, memory playback, reset and repeat.

10. Is it easy to install? Yes! Very easy. All you need is an AC outlet and a modular jack in the wall.**

11. Can this answering machine operate with other telephone management devices? Yes, it can. And Panasonic offers you a complete line of design-coordinated answering machines, speakerphones, and sophisticated automatic dialers, including the KX-T1215. All with an exceptional one-year warranty on parts and service.† All designed to make your telephone work as hard as you do.



12. Is this answering machine offered by a leader in the consumer electronics industry? Yes! Panasonic is a recognized leader offering a broad range of consumer products that combine advanced technology with Panasonic quality.

*One unit furnished with answering machine. Additional units may be purchased separately.
**It may be necessary for the phone company to install a modular jack.
All models are registered with the FCC.

†One-year limited warranty on parts and labor with carry-in service and proof of purchase. See warranty card for details.



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INTERNATIONAL

Soviet System Goes Against Its Grain

PHOTO: JOEL ROGERS—UNIPHOTO



The U.S. is shipping millions of tons of grain to the Soviet Union.

Long-range projections show U.S. grain production could be the new key to American-Soviet relations.

Preliminary Agriculture Department estimates indicate U.S. grain shipments to the Soviet Union in a 12-month period ending next August 31 will reach a record 17.8 million tons, which means, an expert says, that grain shipped from Midwest storage points to the Soviet Union will be history's "largest flow of food between two countries."

The expert, Lester R. Brown, says evidence now shows that the Soviet Union's grain harvests are no longer subject to good-year-bad-year cycles. There are just bad years. "The fourth consecutive massive crop shortfall in 1982 signals a broad-based deterioration of Soviet agriculture that will create food shortages well into the future," Brown says.

Brown was administrator of the Agriculture Department's International Agricultural Development Service during the Eisenhower-Kennedy-Johnson administrations. He is now president of Worldwatch Institute, a Washington-based global study group.

OPIC To Expand Its Third-World Loans

Look for the Overseas Private Investment Corporation to expand its dealings with Third World nations, which it considers the fastest-growing investment markets.

OPIC, a self-sustaining agency created by Congress to stimulate U.S. private investments in developing countries, celebrates its 12th birthday in January. OPIC President Craig A. Nalen recently presented President Reagan with a $50 million check for the U.S. Treasury from the agency's record net profits of $82 million for the 1982 fiscal year.

OPIC loans are creating businesses at a booming rate while developing long-term employment and new markets.

Take Joseph Wertheim of Westport, Conn., a tea importer. Wertheim discovered that tiny Rwanda in Central Africa grows a tea leaf not cultivated anywhere else. He obtained a $1.5 million OPIC loan in 1975, contacted 2,500 Rwandan tea farmers, offered them a profit-sharing plan to raise a cash crop and built a processing plant for exporting the tea to America.

Rwanda was so poor that Wertheim's business there soon accounted for at least 12 percent of that country's gross national product, according to OPIC records.

During the next 15 months OPIC managers plan to issue at least $4 billion in political risk insurance to investors in Third World business.

ECONOMICS

Two Views on Interest-Rate Volatility

The Reagan administration continues to feud with Federal Reserve Board Chairman Paul A. Volcker over the cause of interest rate volatility.

"Volatile money growth induces similar volatility in interest rates," Beryl W. Sprinkel, Treasury under secretary for monetary affairs, told a seminar on interest rates sponsored by the Brookings Institution in Washington.

Sprinkel cited a Treasury study showing "that the quarterly variability of money growth has added, conservatively estimated, 2 to 3 percentage points to the level of interest rates over the last two years."

Volcker, referring to the same study in a letter to Sen. Charles E. Grassley (R-Iowa), said it is "inherently implausible to attach so much weight to short-term variability in the money supply."

Sprinkel told the seminar that the administration wants a moderate, sustained recovery rather than a rapid, short one and will therefore not resort to excessive stimulus to get the economy out of its slump. "We have very high confidence that this recession is bottoming out and that we'll be moving out of it in the months ahead," he said.

Sprinkel said he can't find the "alleged association between federal budget deficits and interest rates," but he has observed that "when money growth accelerates, so do interest rates."

Economic Adviser Tempers Optimism

The man President Reagan has named chairman of the Council of Economic Advisers has given an early signal that he won't support excessively optimistic forecasts on the economy.

Although the administration has predicted a 4.4 percent growth in 1983, Martin S. Feldstein notes that 3.5 percent is the consensus of leading forecasters.

One of the reported factors in the resignation of his predecessor, Murray Weidenbaum, was a growing conflict between professional judgment and demands of the White House staff for rosy projections on recovery from the recession.

Feldstein testified during his Senate confirmation hearing that a gradual and sustainable recovery is preferable to one that "rapidly overheats and fails to persist."

On the thorny problem of Social Security funding, he pointed out that there are only two choices: raise taxes or reduce the growth of benefits. He said, however, that he is not yet "an advocate for either side."

He has also indicated that he no longer advocates a delay of the final 10 percent cut in individual tax rates scheduled for July, in view of the $98 billion tax increase won by the administration last summer.

PHOTO: PAUL CONKLIN



The Senate is expected to confirm Martin Feldstein's nomination soon.



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I never made "real money" until I quit working for someone else and started my own Duraclean business

"When I was with the New York City Fire Department—with a wife, and three children to raise—I felt I spent most of my time putting out financial fires at home! It occurred to me that I could never achieve the financial security and independence we craved working for someone else. The obvious answer—start a business of our own. But what? Sure, we had been able to



put a little money aside, but nowhere near what it takes to start most businesses. I looked for something I could get into with a small amount of borrowed money.

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"Marge, my wife, discovered the perfect answer. She had run across a Duraclean story—a message much like this one—and we looked into it. Well, believe me, when we saw the superior Duraclean service demonstrated and found out what a low investment it took, we were sold.

"With a fireman's schedule, I was able to start out in my spare time. (I didn't want to burn all my bridges behind me.) Marge and I mailed out company provided mailings describing our service and soon the phone began to ring. She made the appointments. I rendered the service. When we discovered how much money there was to be made in a Duraclean dealership, I took early retirement from the fire department. Before long, I had to hire part-time servicemen. Soon, profits paid for our first van. Now most of the work is done by our four servicemen. Marge schedules the jobs, sends out mailings and does the bookkeeping. I do the job estimating, special spotting jobs and contact new prospects."

Now at this point you're probably asking yourself, what is this Duraclean business Wilt Hildenbrand keeps raving about? Well quite simply, it's a unique, superior system for cleaning upholstered furniture, rugs and carpets (don't confuse it with "steam cleaning" or ordinary shampooing methods). It not only cleans but restores and revives colors. It does not wear down the fiber or drive the dirt into the base of the rug as ordinary cleaning methods do. Instead it *lifts out* dirt by means of an absorbent dry foam.

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ENERGY

Forbidden Lands' Energy Potential

A series of congressional votes in coming months may have an important bearing on the nation's energy future and economy. At issue will be whether bans on energy exploration and development in various government-controlled lands will be continued.

Nearly one third of America's land area outside Alaska is involved. The U.S. Geological Survey says the land, most of it in the West, contains between 64 billion and 105 billion barrels of economically recoverable oil and from 475 trillion to 739 trillion cubic feet of natural gas. No accurate inventory exists.

PHOTO: DALE R. THOMPSON—UNIPHOTO



A seismic crew tests for the presence of energy deposits in the Montana plains.

Independent energy experts say private companies should be given access to these forbidden areas so assessments of energy potential can be made.

Economic penalties would follow continuation of the bans. Currently domestic oil companies invest between 60 and 70 percent of their exploration and development dollars in the United States. An increasing percentage could be expected to go abroad.

"Companies will drill where they have access, and if they don't obtain it at home, they will expand their search overseas," says an American Petroleum Institute official.

Stagnant Exports Of Coal Forecast

The outlook for America's coal producers through the mid-1980s could be a lot better. The coal export market is dismal, thanks to the worldwide recession, and it is expected to remain stagnant through 1986, and perhaps longer.

"It's dog-eat-dog in the mad scramble for what few export customers exist," says Constance Holmes, vice president of international trade for the Washington-based National Coal Association.

U.S. exports of coal this year will total about 104 million tons, a drop from last year's record 110 million tons, which was valued at more than $6 billion. The problem, says Holmes, is that coal use has plummeted in the global economic slump.

American coal producers, who had a 43 percent share of the free world's market last year, could increase it substantially over the next 20 years if the United States took immediate steps to modernize domestic port facilities, according to Milton R. Copulos, director of energy studies at the Heritage Foundation.

He suggests adoption of three major reforms: creation of coal export zones, which could drastically reduce the lead time for dredging a port; formation of coal export investment companies that would marshal private investors to provide the capital for port improvements; and establishment of coal exchanges that could promote the efficient use of coal by standardizing its many grades. There are now about 10,000.

FINANCIAL

SEC on Money Market Funds: Yes, But . . .

While watching with a raised eyebrow, the Securities and Exchange Commission has decided not to raise one impediment to money market funds sponsored by securities firms and distributed by banks. It has reversed an earlier ruling denying "accelerated registration" to such funds.

A registration statement's effective date is usually 20 days after the statement's initial filing with the SEC or after any later date specified by the registrant. If the SEC staff finds no flaws in the filing, the registrant may request a waiver of all or part of the 20-day waiting period.

The SEC has had reservations about money market funds distributed by banks because of fears that such tie-ins might violate the Glass-Steagall Act, which separates the securities and banking industries.

However, SEC Chairman John Shad argued that violations of the Glass-Steagall Act are for the courts to determine and do not affect the legality of the funds themselves, whatever the method of distribution. The other commissioners agreed. There was also precedent to consider. The SEC has already approved numerous registrations for funds with bank tie-ins. The commissioners made it quite clear, however, that possible Glass-Steagall complications must be disclosed to potential investors.

A Tougher Tack On Insider Trading

As part of a continuing, general crackdown on illegal insider trading, the Securities and Exchange Commission has sent Congress draft legislation that would toughen penalties considerably in two ways.

It would increase the maximum fine the SEC can impose for criminal violations to $100,000 from $10,000, and it would give the commission authority for the first time to seek civil penalties of up to three times the gains made or losses avoided by illegal insider trades.

(The SEC can now seek "disgorgement" of gains it deems illegal and recently obtained $250,000 worth from a corporate director.)

Congress probably will take up the SEC proposal next year.

In another development, the SEC has extended for a year the controversial shelf registration rule—which gives an issuer up to two years to sell stocks or bonds previously registered. Rule 415 will now remain in effect through Dec. 31, 1983.

The rule was adopted on a temporary basis in February. It is designed to allow larger companies to pick the most favorable time to sell their offerings.

EVERETT C. JOHNSON—UNIPHOTO

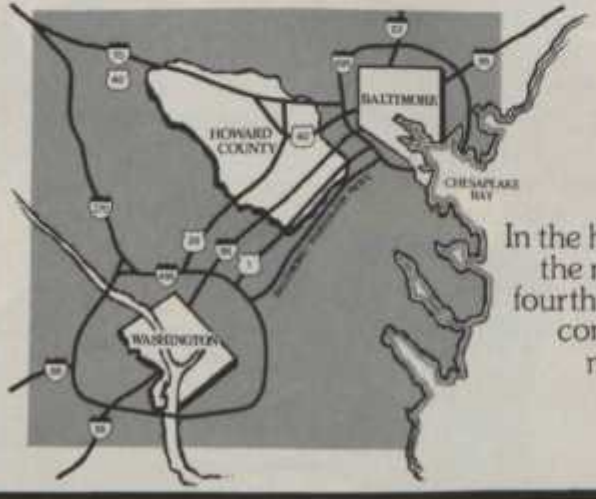


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WASH/E/2

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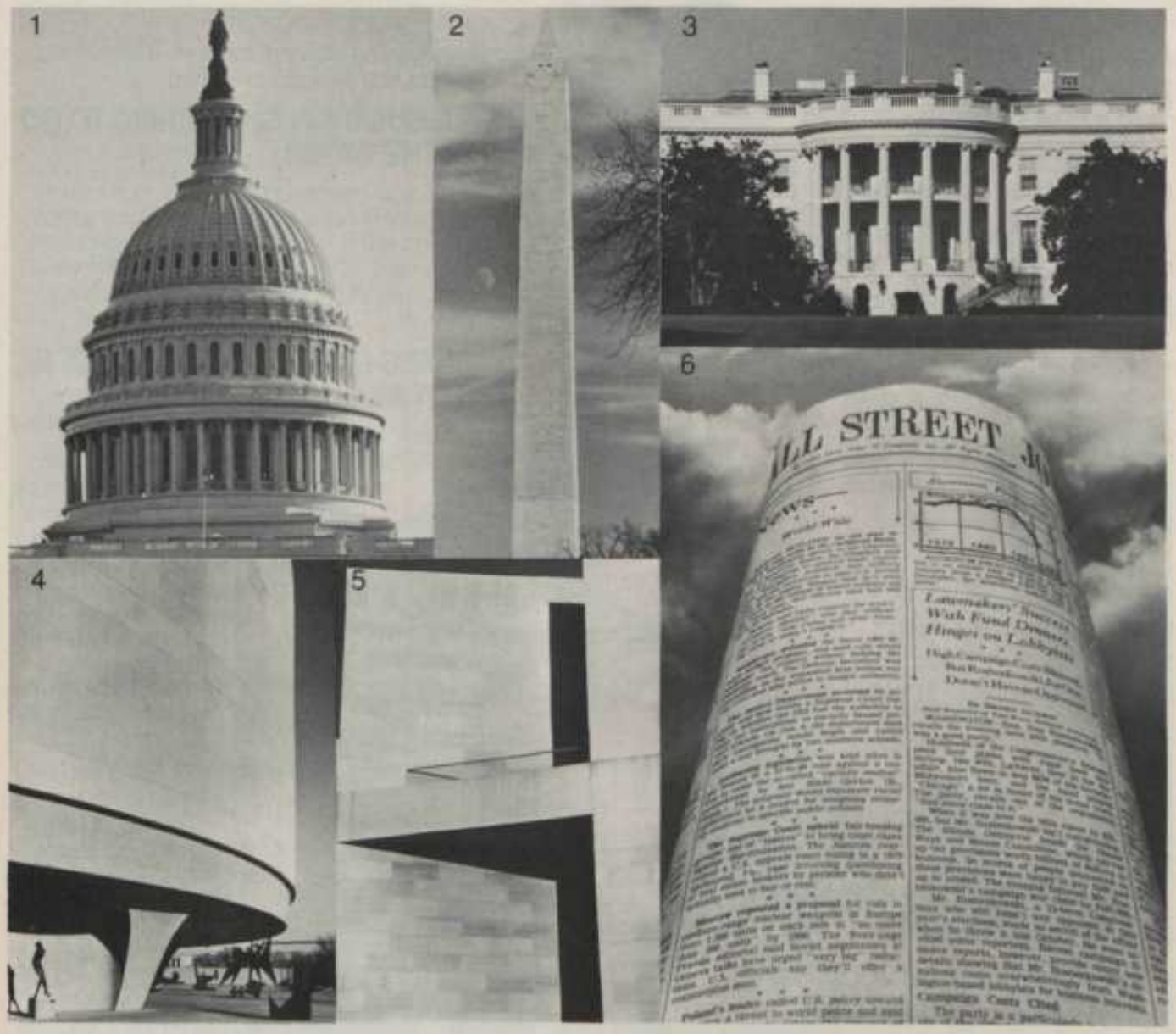
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WASH/E/4

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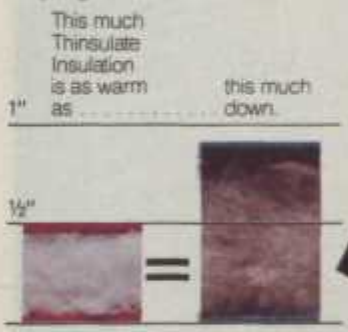


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WASH/E/6

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For many of those with epilepsy, the most serious problem is not the condition, but the stigma that society casts upon them. When people don't understand an event or a behavior, they may fear it. This is true of epilepsy. For many years those with epilepsy were treated unfairly. Forbidden to marry, or even associate with others. The effects can be psychologically damaging. It's important that all of us, including the person with epilepsy, understand what the condition is, and what modern medicine can do for it.

Epilepsy is a symptom of disturbed electrical activity in the brain. If a person's brain is damaged, some of its 12-billion nerve cells may malfunction. The damaged cells "overload," become overexcited and give off too much electricity. The result is a seizure.

Epileptic seizures vary in intensity from convulsions to mild lapses of attention. During a seizure, there is a sudden loss or disturbance of consciousness often associated with motor activity. Although it can be visually disturbing to the unknowing observer, the seizure causes no pain and usually has no long-term aftereffects. In fact, many persons who have seizures, particularly one of the mild types, often are unaware they've had one. Between seizures, life is normal, active and healthy.

In brief, epilepsy is not contagious. Usually not inherited. Doesn't affect intelligence. Even though epilepsy cannot be cured, it often can be partially or totally controlled with proper medication. Most persons with epilepsy are quite capable of living just as normally as anyone else.

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What's Next On Health Cost Control

The problem is how to increase competition without excessive regulation.

By Susan J. Duncan

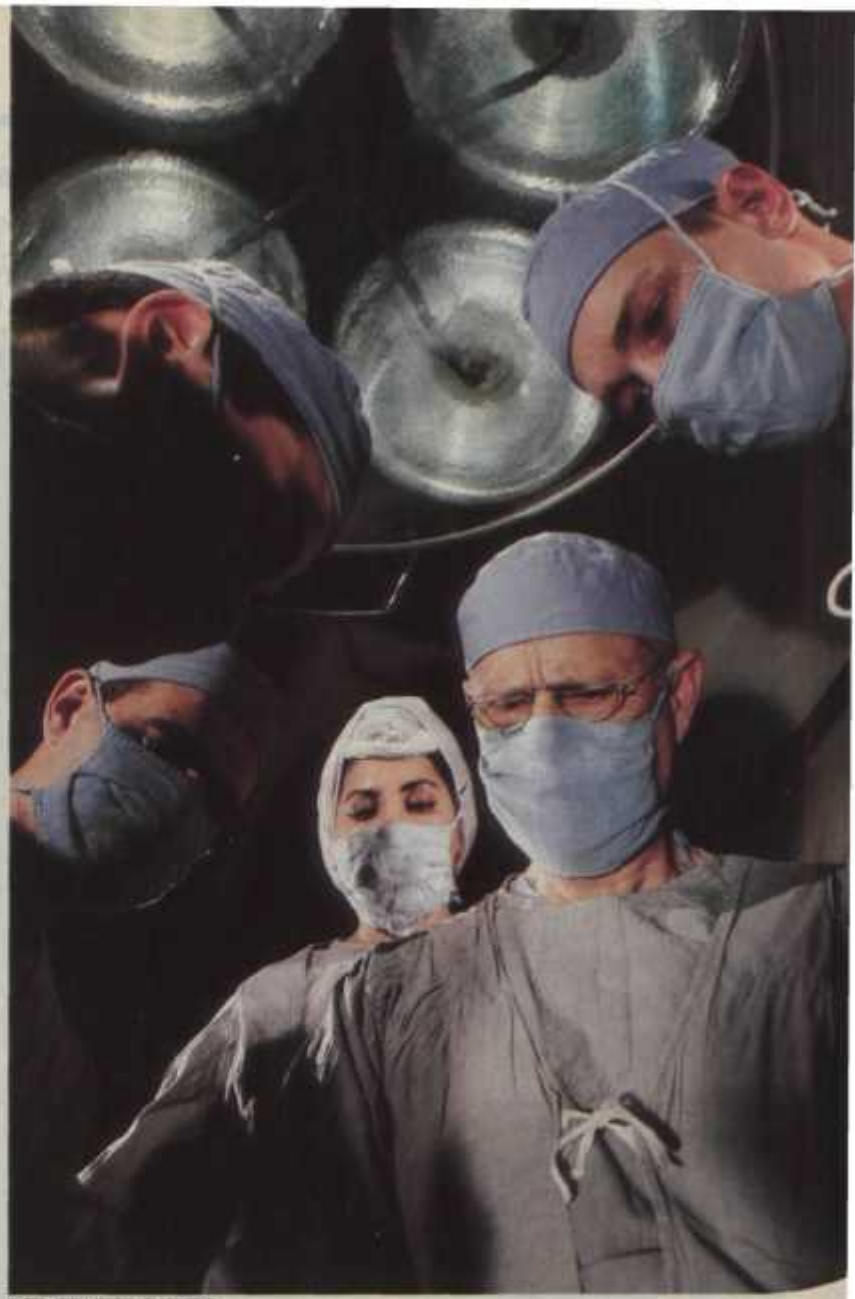


PHOTO: JOHN LAUNOIS—BLACK STAR

THERE WAS very little talk about health care policy when Congress debated the hotly controversial tax-increase legislation in midsummer. The fact was, however, that the 220-page measure contained important provisions changing the way the government deals with medical costs.

One section, for example, requires that company health insurance plans, rather than Medicare, provide primary coverage for workers 65 and older. The change could cost employers $300 million a year.

Another section tightens individual tax deductions for medical expenses. One investment company's analysis of the tax legislation reported: "For many taxpayers, it will now become more expensive to be sick."

The presence of health care provisions in a bill known officially as the Tax Equity and Fiscal Responsibility Act represents an emerging trend: the use of tax and budget mechanisms to shift medical costs from the government to companies and individuals.

Business, as the No. 1 purchaser of medical care services through insurance coverage for workers, is watching that development closely. It is seeking clues to the Reagan administration's long-range program for dealing with soaring medical costs.

The big question: Will the administration follow through on its promise to help develop a health care system based on cost-cutting competition, or will it concentrate on lowering its own health care bill by transferring costs to the private sector?

As a candidate, Ronald Reagan endorsed increased competition as a way of bringing down health care costs, the last bastion of the runaway inflation that plagued the nation from the late 1970s to recent months.

As President, however, he is up against the complexities of using the government as a vehicle to foster a free market.

Many of the so-called procompetitive proposals that have been put forward in recent years, for example, would force employers to provide health insurance coverage at specified levels to all workers. Others would have imposed what amounted to price controls on the medical industry.

Robert Carpenter, manager of health care cost-control for Republic Steel Corporation and a member of the Health Care Committee of the U.S. Chamber of Commerce, says, "Federal legislation requiring competition is a contradiction in terms."

So the basic problem remains: How to bring cost-cutting competition to the health care system without excessive government intervention, which could ultimately worsen the problem.

Health care economists have long pointed out that the principal engine for escalation of medical costs is the system under which the person using the

SUSAN J. DUNCAN *is a Washington-based free-lance writer.*

A system in which patients pay a smaller share of the price of care while government and private insurers pay more has spurred medical costs. Another spur: inflation. And another: expensive technology, such as the CAT scanning that is providing a three-dimensional internal view of the patient in the photo at bottom right.



PHOTO: A. PRINCE ROGERS—GRAPHICS



PHOTO: KEN TOUCHTON

services has little interest in the cost, which is borne by third parties, principally insurance companies and the federal government. "It doesn't matter what the costs are anymore, as long as health care consumers are reimbursed," says David Winston, White House health care adviser.

ECONOMISTS blame U.S. fiscal policies for the surge in third-party payments. Private health insurance is heavily tax-subsidized: Employer-sponsored benefits are tax-free income to the employe and tax-deductible to the employer. Public health insurance costs—Medicare for the elderly and Medicaid for the poor—are borne by the taxpayers. Consequently, health insurance has become increasingly broad in the benefits it supplies.

Insurance not only provokes excessive demand but also invites excessive supply because of the way payments are made. In general, both private insurers and the government pay doctors and hospitals on the basis of what the patient is charged. Thus, health care providers are rewarded with greater income for performing more services but not for cost efficiency.

These factors have combined to produce soaring medical costs disguised as higher taxes and mounting insurance premiums.

Says Jan Peter Ozga, health care director for the U.S. Chamber of Commerce: "Doctors and hospitals, employers and employes are all responding to the incentives in the health care system. This system is motivated by a third-party arrangement—insurance—that typically encourages the most expensive kind of health care. Doctors and hospitals are only too glad to provide this care. Insurance companies are happy to write the coverage. Employes, especially those in unions, demand more and more health benefits. "And employers, who are eager to attract and retain labor and are given a tax subsidy to provide health benefits, do so willingly."

Sometimes, however, employers reach the point where the burden of medical care costs becomes too much. That happened this past year in Massachusetts, where annual health costs total $4 billion and average Blue Cross insurance premiums have doubled in the past six years for many employers.

The business community served what amounted to an ultimatum on hospitals and insurance companies to develop an effective plan of cost containment. The result was a new state law, supported by hospitals and insurers, that took effect last month. Basically, the plan relies on incentives, rather than coercion, to reduce costs. Hospitals are guaranteed a fixed fee for various services. Well-managed hospitals that can provide the service for less will retain the full amount. Those that are not efficient in cutting costs will lose money.

David Frost, president of Massachusetts Blue Cross, says that strong and unyielding pressure from business was directly responsible for the enactment of the plan, which could save $1.4 billion over the next six years, according to one estimate. He says the plan provides "pervasive" incentives.

"Medical costs became an intolerable burden for Massachusetts businesses," Frost says. "Those costs work their way into the price of goods that businesses sell in both the domestic and world markets."

The cost-cutting plan is scheduled for a six-year trial, with extensive monitoring over that period to identify and correct problems as they arise.

In Washington, the Department of Health and Human Services has begun taking a fixed-fee approach on Medicare that it also hopes will cut costs.

Secretary Richard Schweiker is trying to get states to apply for waivers to the standard Medicare payment procedure for hospitals. The hospitals would come under a so-called prospective payment system. Instead of being reimbursed on a cost-plus basis for services to a patient, a hospital would get fees set on the basis of the patient's diagnosis and could keep anything it saved out of those fees.

MEANWHILE, however, debate continues at the national level over various proposals that might, in some respects, anticipate the Reagan plan, which is expected to follow the so-called procompetitive approach. Although no two are identical, most include a variation of a tax cap to help control private-sector costs and a variation of the voucher to help keep down public-sector costs.

Tax caps could set limits on tax-free health benefits in two ways. If a health plan requires employer payments that exceed those limits, an employe tax cap could treat the excess as taxable income to the worker, or an employer tax cap could prohibit the employer from deducting the excess as a business expense. Some proposals incorporate both features.

The tax cap concept assumes that employer and employes alike would be spurred to seek lower-cost health plans. Lower-cost plans usually require greater cost-sharing, and with the consumer footing more of the bill, the theory goes, demand would decrease, spurring in turn greater price competition among providers of health care.

In the public sector, Medicaid and Medicare patients could elect to receive payment vouchers under procompeti-



White House health care adviser David Winston is drafting legislative proposals.

tion plans. These could be used to buy insurance from any private health plan offering coverage comparable to Medicare/Medicaid.

If the private plan cost less than the value of the voucher, the patient could keep the difference. Again, the idea is to stimulate low-cost, alternative delivery systems.

But the procompetition bills, this year and last, have languished. Congress still awaits the President's own long-promised program. And many insiders doubt that they will ever see it.

What has happened? Have health care costs declined? Hardly. In fact, although the rate of increase in the consumer price index dropped from 13.2 percent for the year ending July, 1980, to 6.5 percent for the year ending July, 1982, the rate of increase in medical care, accounting for about one twentieth of consumer budgets as reflected in the total CPI, galloped along at 11 percent for each of those three years.

The Health Care Financing Administration, part of the Department of Health and Human Services, reports that as of the end of 1981 total spending for health care was $287 billion—a 15 percent increase over 1980. This spending, 9.8 percent of the gross national product, works out to $1,225 per capita. The figure for 1982, if it were available, would be higher.

Such statistics indicate a more pressing need for real, marketplace competition. But unlike most other issues, health policy affects all interest groups, explains JoElyn McDonald, health policy aide to Rep. Richard Gephardt (D-Mo.), a leading procompetition advocate. So health policy reforms will likely contain something for everyone to oppose. That is certainly true for the procompetition legislation. Employers, organized labor, insurers, consumers and health care providers have all squared off against it.

Perhaps most objectionable to business is a provision, common to many proposals, requiring employers to offer several health insurance plans, with a fixed contribution to each. Employes who chose the most expensive plans would pay for any costs above the employer's contribution; those choosing plans that cost less than the employer's contribution would get rebates. The multiple-choice idea "involved just too much cost-shifting to business," according to one Senate Finance Committee staff member. It has been all but abandoned.

Although procompetition may be ailing as health policy reform, it is very much in the pink as a revenue-raiser. Both the tax cap and the voucher plan have gained favor among budget-cutters. And with good reason. The federal share of Medicare and Medicaid bills amounted to $83 billion in 1981, up $11 billion from 1980. Budget experts estimate the value of health-related tax breaks at $22 billion for this fiscal year

A Company Checklist for Curbing Costs

In 1981 business paid an estimated $74 billion for group health insurance, or 25 percent of the nation's $287 billion health bill. However, after adding business taxes for Medicare and Medicaid, and other health-related costs, employers' share topped 50 percent. According to a U.S. Chamber of Commerce employe benefits survey, employer insurance payments (life, hospital, surgical and medical) averaged $20.63 per employe per week, a 191 percent increase over 1971 levels.

Many large companies have seen their insurance premiums hiked 25 to 40 percent each year and some small businesses as much as 60 percent, with no accompanying increases in benefits or number of employes covered. "The cost of health care has risen so high for employers, it's undermining industrial efficiency and international competitiveness," says David Winston, White House health care adviser.

How can employers check escalating health care costs? By renegotiating relationships with employes, insurers and health care providers. A quick list of techniques:

1. Redesign of benefits. Would "multiple-choice"—offering a variety of health plans—be cost-effective for your company? Does your plan require cost-sharing by the employe, through deductibles, for example? Is your plan biased toward more costly treatments, e.g., reimbursing only for hospitalization and not for outpatient treatment of the same illness? Does your plan require preadmission testing and second surgical opinions?

2. Data analysis and claims control. Do you collect and analyze claims data? Can you use your data to challenge premium increases (in other words, do you know what your dollar is buying)? Do you support private review of medical treatment? Can you identify the most cost-effective doctors and hospitals in your area?

3. Alternative financing delivery systems. Is self-insurance a cost-effective possibility? Should you form or join a small business insurance pool? What about prepaid plans, such as health maintenance organizations, or prenegotiated-fee plans, such as individual-practice associations and preferred-provider organizations?

4. Health promotion and education. Do your employes realize the value of their health benefits? Have you considered employe wellness programs (including cash incentives) and other preventive measures? Is business represented on the local hospital board and in other health-related community groups?

5. Health action coalitions. Have you joined a coalition? The past few years have witnessed the formation of about 75 health action coalitions, from Alabama to Wisconsin. In addition to examining cost-cutting options, most coalitions are involved in communitywide health planning. Beyond that, few generalizations can be made; each coalition keys its activities to local needs. Some restrict membership to employers; others strive for broad spectra of health care consumers, buyers and providers. But all promote the health care *purchaser's* interest.

Last February the U.S. Chamber of Commerce opened a Clearinghouse on Business Coalitions for Health Action to coordinate the exchange of ideas and information among these coalitions. Clearinghouse Director Jan Peter Ozga explains why the coalition movement has caught fire: "It's the power of the purchaser. On the local level, the coalitions are the payers, so they're in the best position to exert pressure on the local providers. And as a group, they've got more clout than an individual employer acting alone."

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and say it is growing faster than Medicare spending. Tax caps and vouchers would help slash the federal costs and the tax breaks, these experts claim.

Moreover, health care reforms encounter far less resistance when pursued as strictly fiscal decisions.

This year and last, all health care financing proposals were enacted through the budget, McDonald observes. She expects this trend to persist, with passage of both a tax cap and a voucher plan inevitable, perhaps as early as next year in the 1984 budget. Other health care analysts agree that 1983, an off-election year, is a good bet for significant health care reforms.

White House adviser Winston is working on a series of proposals, including the tax cap and the voucher system, that could be presented either as a health package or as separate components. His deadline is January. "I think the administration still prefers a package," says the Chamber's Ozga, "because a package can show the compensatory effects of different provisions."

But if a package does not appear politically expedient in 1983, Ozga believes, the components will be broken out as separate items for the budget. Winston notes that his January deadline means the proposals "will be ready for submission in the budget."



PHOTO: LOU JONES—SHPHOTO

Massachusetts Blue Cross President David Frost says that medical costs for employers in his state have been "intolerable."

THE PRESIDENT is reportedly committed to a tax cap despite business opposition to the idea. The Department of Health and Human Services is said to favor an employer cap to avoid increasing individual taxes; the Office of Management and Budget prefers an employe cap in the belief that a greater number of health care consumers would be affected. Winston observes that an employe cap is probably more equitable, but that an employer cap would arouse less controversy.

As for the voucher, it probably will be initiated on a trial basis before Medicare patients see it. Federal workers may well be the guinea pigs—President Reagan is considering introducing such a plan for congressional approval next year.

Business objects to the tax-cap concept for a number of reasons, all of which add up to increased administrative costs, unfair tax consequences and questionable competitive effectiveness.

For instance, an employer tax cap would not apply to nonprofit or government employers, since they pay no taxes. It would hit small businesses disproportionately hard, since large companies often can secure price concessions from insurance companies because of the number of workers they bring into a plan.

An employe tax cap, unless set very low, probably would not generate enough additional taxable income to affect the employe's choice of insurance, opponents of the concept say. More fundamentally, they say, a cap infringes on employer-employe bargaining freedom and could jeopardize the tax-free status of other benefits.

Winston is analyzing a hitherto undiscussed variation of the tax cap in which, "as a condition of tax-deductibility," insurance plans would be required to have certain levels of payments made not by the insurers, but by the insured. "The goal of the cap," he says, "is to increase consumer cost-sharing. This would be a more direct means of reaching that goal."

Business objects to the voucher plan chiefly because it ignores cost-shifting. The government now reimburses doctors and hospitals at a rate 17 percent lower, on the average, than the actual cost of Medicare/Medicaid treatment. This difference is shifted to private payers and reflected in rising insurance premiums.

The Health Insurance Association of America reports that $4.8 billion was shifted last year, producing a 20 percent increase in premiums. This year's shortfall is estimated at $5.8 billion. Additional Medicare/Medicaid spending cuts, already slated for fiscal years 1983-85, will only dig deeper into private pockets.

Cost-shifting "defeats the purpose of the competition," says Robert E. Patricelli, executive vice president of CIGNA, the new company formed by the merger of Connecticut General Corporation and INA.

"You can't have competition when the same service is priced at different levels for different patients who are covered by different health plans."

For a voucher system to curtail cost-shifting, the dollar volume of the vouchers issued would have to surpass current Medicare spending levels. But voucher proposals envision a dollar volume at or below current levels. Winston acknowledges the cost-shifting problem. His proposals will include Medicare/Medicaid controls that attempt to hold down costs without additional shifting.

WHETHER PIECEMEAL reforms, coupled with voluntary cost-cutting efforts, can provide the fast, effective relief needed is unknown. One thing is certain, however: If health care costs continue to outpace inflation, the threat of national health insurance or similar centralized regulatory schemes will persuade many of today's opponents to take a closer look at procompetition legislation.

Indeed, one Capitol Hill staff member suggests that procompetition will succeed only when the alternative is no longer perceived to be the status quo, but much greater government intervention.

David Frost of Massachusetts Blue Cross, who has been in the front lines of the battle to contain medical costs, has a word of caution for Reagan administration planners impatient to get into the fight.

"The Massachusetts experience is one example of how states are taking their own, innovative steps to deal with the problem," he says, "and we should wait to see the results of these efforts before establishing any broad national policies affecting health care."

He adds: "There may not be one, single nationwide solution." □

A Smaller Share Of Larger Bills

Economists who argue that the growth in payments by government and private insurers is responsible for runaway medical costs cite the following figures:

In 1950 individuals paid two thirds of their total health bills. By 1965 they were paying only half, and by 1980 they were paying only one third. Insurance now pays 91 percent of all hospital bills and about 63 percent of all physician's fees.

Purse-String Holders Under Fire

Capitol Hill's appropriations committees miss deadlines and are accused of busting budgets. Will there be reforms?

By Barry Crickmer

PHOTO: DENNIS BRACK—BLACK STAR



Sen. Mark Hatfield (R-Ore.), left, and Rep. Jamie Whitten (D-Miss.) head the embattled committees that make the final decisions on how to divide up the federal pie.

PHOTO: SUE KLEIMERS



THE CONGRESSIONAL appropriations committees have long been regarded as powerful, secretive, clannish and frugal. Yet today, they have increasing difficulty getting their work done on time, their power is eclipsed by other committees, and the White House accuses them of budget-busting.

What is wrong? Whose fault is it? What can—or should—be done about it? These are questions raised about the entire range of federal fiscal and monetary policies, but they tend to focus on appropriations because the appropriations bills are—theoretically—the last stage of the long budget process.

The tardiness is a matter of record. As fiscal 1983 dawned last October 1, only one of the required 13 appropriations bills for the year had made it through Congress and to the President's desk. And it was passed at the last minute. That is not unusual. Three of the bills for fiscal 1982 were never passed, leaving much of the federal government operating on continuing resolutions for the entire year. (A continuing resolution usually provides funds at the level last appropriated or, if lower, at the level approved by either house of Congress for the current fiscal year.)

The Congressional Budget and Impoundment Control Act of 1974 requires that all appropriations bills be completed a week after Labor Day. That deadline has never been met. Only for fiscal 1977 have all 13 been ready at the beginning of the year they were supposed to fund.

Why all the delay? Appropriations committee members blame it on other committees, and there is some justification for that. The fiscal 1983 budget is a good example. Con-



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gressional refusal to accept the budget presented by President Reagan at the beginning of this year created a long impasse, causing the budget committees to miss their deadlines. Consequently, the first budget resolution, due by May 15, was not passed until June 23.

The appropriations committees, which actually provide the money for a program, cannot do that until the authorizing committees—the committees that specialize in various legislative areas, such as agriculture or foreign affairs—have authorized the program. (The authorizing committees both establish programs and authorize funds for them. For all practical purposes, the authorization becomes a ceiling. Appropriations are usually smaller.)

But the authorizing committees do not know what they have to work with until there is a budget resolution. So the appropriations committees "are really getting killed in the process because they are the last ones out of the gate," says a sympathetic House Budget Committee staff member.

There are other explanations for the tardiness. "The amount of resources available for distributive politics determines the speed of the appropriations process," says Carol G. Cox, president of the Committee for a Responsible Federal Budget and a former Senate Budget Committee staff member. "The harder the decisions are, the longer they take." She notes that the expansionary budgets of fiscal 1975, 1976 and 1977 were appropriated without much delay.

Rep. David Obey (D-Wis.), who sits on both the House appropriations and budget committees, criticizes colleagues who posture against spending in public, then privately urge members of the appropriations committees to increase it. "One fellow," says Obey, "has written me more than 26 times asking me for spending increases, and he has never voted for a budget resolution. The system conveniently allows you to walk both sides of the street."

The budget-busting question is complicated because there are differing definitions of budget-busting.

Staff members at the Office of Management and Budget say that the appropriations committees use three techniques to evade budget resolution limits: underfunding entitlement programs, spending multiyear budget authority in one year and launching costly programs with small initial appropriations. The fiscal 1983 agriculture appropriations bill passed by the House, for example, provides sufficient funds to carry the food stamp program only until mid-July. No one expects food stamps to be cut off then.

But some independent observers say that deliberate budget-busting by the appropriations committees is trivial.

"I understand the OMB concern with what may happen later," says Cox, "but with the laws that have been passed and signed for fiscal 1983, the appropriations committees have been very close to the budget limits."

PHOTO: ROBERT SHERBOW—UNIPHOTO



Government by continuing resolution may not be all bad, judging by figures from Senate budget chief Pete Domenici.

James Clifton, director of federal budget policy for the U.S. Chamber of Commerce, thinks it is too early to judge the appropriations committees' behavior. "In at least three areas," he warns, "there are significant overages in House bills at various stages of enactment." He adds, "The problem of uncontrollable federal spending does not lie fundamentally with the appropriations process. The problem is with the entitlement programs, such as Social Security, which are beyond the jurisdiction of the appropriations committees."

NORMAN ORNSTEIN, a political scientist and visiting scholar at the conservative American Enterprise Institute in Washington, questions the administration's motives in its dealings with the appropriations committees.

He says that "OMB and the President are following a strategy of confrontation; of trying to be in a position to veto as many appropriations bills as possible, to establish an image of a spendthrift Congress being blocked by Ronald Reagan. In many instances, it's a difference over priorities, rather than actual dollar amounts."

The difference over priorities is well illustrated by the fiscal 1982 supplemental appropriations bill passed over the President's veto. The $14.2 billion bill provided more for social programs and less for defense than the White House wanted. But it was, in total, almost $2 billion less than the President had requested.

Nevertheless, the grim fact remains that federal spending as a percentage of the nation's gross national product continues to inch up year by year. It is now 24 percent. If the appropriations committees are not to blame, who is?

Many fingers point at the entire budget process, starting with the initial economic assumptions.

"The only budget resolution that can pass this place is one that lies," charges Obey. "The whole argument degenerates into whose deficit is bigger, and the way to prove that you've got a smaller deficit than the other fellow is to jimmy your economic estimates."

Numerous reforms have been suggested, many of them affecting the appropriations committees.

Alice M. Rivlin, director of the Congressional Budget Office, favors moving to a two-year budget cycle. It is an idea that has wide support, including that of House Appropriations Committee Chairman Jamie L. Whitten (D-Miss.) and Senate Appropriations Committee Chairman Mark O. Hatfield (R-Ore.). Proponents argue that with a two-year cycle Congress could get noncontroversial appropriations out of the way and then have time to deal with the big problems.

Opponents argue that Congress and the President might not like having to live for an extended period under economic decisions made by their predecessors. They also say that economic projections made one year ahead have not been reliable, and the problem would be worse if the period doubled.

Another suggestion is to combine the budget and appropriations committees. Thus, one committee in each house would decide both the larger question of budget totals and the smaller questions of how to divide them up. And some observers would like all appropriations lumped into one omnibus bill.

Whether any of the reform suggestions will be adopted soon is doubtful. But the prospect of a government that runs further each year on continuing resolutions is not all bad. Senate Budget Committee Chairman Pete V. Domenici (R-N.M.) says his staff has calculated that if the country had to operate through fiscal 1983 at the level of spending provided in the current continuing resolution, outlays would exceed the budget resolution by about $2.9 billion. These days, that's close. □

Political Watchdog On A Long Leash

The Federal Election Commission, some say, should be brought up short—or abolished. Even the FEC's chairman, while insisting its role is vital, says it must shape up.

By Seth Kantor



PHOTO: DENNIS BRACK—BLACK STAR

FEC Chairman Frank Reiche (foreground) presides over an agency where the two top staff aides, Charles N. Steele and B. Allen Clutter (right), feud over turf.

FINAL FINANCIAL REPORTS on this year's congressional elections are expected to show record-breaking outlays of dollars pumped into the 468 House and Senate campaigns in the two-month spread between Labor Day and November 2.

"How campaigns are financed influences the makeup of Congress and, ultimately, the laws that govern the country," says Craig Brightup, director of legislative and political issues at the U.S. Chamber of Commerce.

Brightup is the former chief of public records at the Federal Election Commission, the independent regulatory agency Congress set up in 1974 to monitor the growing torrent of contributions and spending in congressional and presidential elections. A chief function of the FEC is to make sure that where all this money comes from and how it is spread around is disclosed in public reports on campaign financing.

"Campaign financing is the real political battleground of the 1980s and 1990s," FEC Chairman Frank P. Reiche says. Reiche (his name is pronounced as if it were Ritchy) is one of six commissioners, appointed by the President and approved by the Senate, who serve on the FEC, each for a six-year term.

If the FEC doesn't succeed, Reiche warns, "our failure is going to have a terrific impact on the next generation. Either they will rebel or become apathetic because their faith in the political system as a day-to-day working entity will be seriously damaged."

Their faith will be damaged, Reiche contends, because without an FEC to keep a detached eye on how political money changes hands, there would be a return to the kind of abuses that led to creation of the FEC in the post-Watergate period. Before there was an FEC, the flow of funds to candidates was unevenly governed on Capitol Hill by employes of those candidates who were elected officeholders.

Reiche says there has to be an independent agency to enforce public disclosure laws as a political policeman for the nation. But the FEC is beset with internal problems, and many of its critics question whether it can or should survive as structured at present.

Brightup, for instance, points out that a behind-the-scenes clash over control of FEC policy and decisions between the agency's two top staff people—Staff Director B. Allen Clutter III and General Counsel Charles N. Steele—creates internal turmoil at the agency.

"Normally the six commissioners are split, supporting either Clutter or Steele in turf fights," an FEC subordinate points out, "which means even simple decisions often are delayed."

Outside critics range from liberals at Common Cause, who blast the sluggish way the FEC is managed, to a corps of conservative Republicans on Capitol Hill, who want to see the FEC shut down and the policing of political money returned to a simpler system that didn't always work before.

Sen. Roger W. Jepsen (R-Iowa) is among those who would like to padlock the FEC headquarters and overhaul the election campaign law.

He complains that information demanded of candidates and contributors by the FEC under the present law "neither satisfies the public's need to know nor the need to protect the constitutionally guaranteed rights of speech and association. In essence we have the worst of both worlds instead of the best."

AGREEING WITH Jepsen, the House Republican Study Committee facetiously referred to the election campaign law in a recent report as the "Lawyers and Accountants Act" because of complicated FEC "reporting requirements and regulatory hassle [that] have required a new technical specialization in order to campaign."

But most congressional critics of the FEC appear to agree with Rep. Bill Frenzel (R-Minn.) that the agency should not be shut down despite its

problems. Frenzel, who is an expert on campaign financing and an original backer of the FEC concept, describes the FEC as "somewhat in dispute and disfavor" because the agency "nitpicks" over minute details and hauls individuals and organizations into court over matters that could be resolved routinely.

"I think we should shorten the leash on the FEC," Frenzel says, "and lengthen the leash on the people of the United States so that they could participate more actively in elections and so that the FEC would be less interested in harassing them or detailing them to death with paper requirements."

THE NUB of Frenzel's complaint is a common one heard on Capitol Hill—that the FEC is painfully slow to act and that, when it does, it often overreacts. For instance, in times past the commission has taken up to three years to arrive at decisions on potential violations of the campaign law, and by then the issues no longer were timely.

And Frenzel knows firsthand how the FEC can overreact. In 1976 a young Democratic candidate for Congress in Minnesota was defeated in the primary. He raised virtually no money in his losing campaign and therefore filed no financial report with the FEC, which at long last threatened him with a fine and court action.

The young candidate's father turned to Frenzel for help, and Frenzel got the FEC to drop its lawsuit plan since there had been no basic grounds for action. Not every congressman might have done what Frenzel did—the young candidate had been running for the nomination for Frenzel's House seat.

"The FEC's enforcement policy, if it has one," Frenzel complains, "is a real nightmare for those involved in it. The commission takes forever to make decisions on complaints. The reports analysis division and the audit division send hundreds of so-called potential violations over to the general counsel's office to languish in someone's bottom drawer. "Attorneys who have clients involved in a case are told to have their reply in within 10 days, but after they comply, they may not receive a response from the commission for months."

Frenzel says the FEC "is supposed to foster participation, not suppress it. It is supposed to mediate, not prosecute. It is not a court."

PHOTO: BERNARD GOTFRYD—PICTURE GROUP



Sen. Roger Jepsen urges changing election laws and abolishing the FEC.

YET THE FEC has often acted as prosecutor, and one of the best-known horror stories among critics of the agency concerns the case of poor John Adams.

Six years ago Adams was a losing congressional candidate in New Hampshire. He also failed to fill out and mail to the FEC a required standard form for federal candidates. The FEC then levied a fine against him. Adams ignored the fine, and the agency filed suit against him in federal court.

When Adams failed to show up in court, FEC lawyers learned to their chagrin they had been dunning an ailing 80-year-old, unable to leave the soldiers' home, where he lived alone and penniless. The suit was dropped, but not before the judge bawled out the FEC for not being concerned about Adams' personal situation.

"Had the commission known about Mr. Adams' condition earlier, it undoubtedly would not have proceeded against him," FEC Chairman Reiche has noted.

Reiche did not become a commission member until 1979, two years after the Ad-

PHOTO: DENNIS BRACK—BLACK STAR



Former FEC lawyer Paul Kamenar complains that the agency frequently wastes money and tramples on people's rights.

The FEC and The First Amendment

Paul Kamenar joined the fledgling Federal Election Commission right out of law school in 1975 and stayed about a year. That was all he could take. Since then Kamenar has become a leading foe of the FEC, charging that it promotes "much waste of money, litigating at every turn, trampling on people's rights."

He recalls that the FEC once filed suit against the political committee of a would-be 1976 presidential candidate, Ronald Reagan, for failing to list the occupations of 35 percent of the people who contributed to the campaign. A federal judge threw that one out of court.

At the same time, Kamenar charges, "the FEC seems to avoid the major issues." He contends it has failed to prosecute labor unions that "unlawfully used members' dues money for political purposes."

Kamenar, 34, director of litigation at the conservative Washington Legal Foundation, estimates that he has battled policies of his former bosses at the FEC more often in court than any other attorney.

"One must remember," he says, "that the FEC is the first federal agency in our country's history whose job is to regulate political speech."

Now Kamenar is following what he predicts will be a major First Amendment case, undoubtedly heading toward the Supreme Court.

It's a case filed by the FEC last March against Massachusetts Citizens for Life. The nonprofit anti-abortion group had issued a brochure that indicated where various candidates for federal office stood on the abortion issue. But since the group is incorporated, the FEC sued under a 1907 law prohibiting corporate involvement in federal elections.

The FEC is seeking a $5,000 fine and a ruling that would block the group from issuing any more such publications, but at the heart of the pending legal battle is the right of corporate political interests under the Constitution.



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ams episode. President Carter appointed him to fill a GOP vacancy on the panel, which Congress had set up as a bipartisan commission with three Democrats and three Republicans.

Despite his credentials as a former GOP county committeeman in New Jersey, Reiche's nomination was fought by a knot of conservative Senate Republicans, led by Sen. Gordon Humphrey (R-N.H.), on grounds that he was not partisan enough and was not their kind of Republican.

A former tax lawyer, Reiche believes strongly that the FEC is no place to be a partisan politician. He disagrees strongly with the congressional mandate for a bipartisan approach on the commission that pits members of one party against members of the other.

"Politics should be removed from the selection process of the commissioners," insists Reiche, who had served previously as chairman of the New Jersey Election Law Enforcement Commission under both Republican and Democratic governors.

He says he is trying to conduct FEC business in a nonpartisan way during his one-year term as chairman of the federal commission.

Congress provided the rule that nobody could serve more than one year as chairman, and the post alternates between a Democrat and a Republican from year to year. "That's a terrible system," says Reiche. "It ensures having a weak chairman. There's not enough time to establish and push through policies in one year."

Reiche's main goal in the sliver of time that remains in his term is to achieve "greater professionalism" within the FEC, "which just doesn't exist now. The biggest need here is to establish credibility, and that is done through nonpartisanship. I don't mean we should sit off to the side in an ivory tower. I, for instance, express traditional Republican Party views. But my primary loyalty here must be to the public. That is transcending."

ALTHOUGH Reiche was a controversial appointee and he now presides over a controversial federal agency, he feels the FEC "no longer is on the endangered species list of agencies" in the Reagan administration.

Sen. Jepsen made a midnight raid on the FEC last year, offering an amendment during a late-night session on the Senate floor to cut off FEC funds, which would have eliminated the agency. However, Jepsen's raid failed and there is no serious move these days on Capitol Hill to shut down the commission.

Jepsen has been an ardent foe of the FEC since at least 1978, during the campaign in Iowa that won him his Senate seat. In need of $50,000 to launch the campaign, Jepsen obtained a bank loan, putting up his house as collateral. Since his wife was joint owner of their home, the bank required her signature on the loan.

That's when the FEC moved in, investigating Jepsen's wife for giving the candidate more than the $1,000 legal limit for his campaign. Eventually the FEC ruled his wife had not violated any law, but it was another example of the agency acting slowly and without using common sense, many believed.

PHOTO: SHERARD SHERRELL—PICTURE GROUP



Rep. Bill Frenzel: "The FEC's enforcement policy, if it has one, is a real nightmare . . ."

Jepsen and the House Republican Study Committee would like to see supervision of federal campaign finances returned to the offices of the clerk of the House and the secretary of the Senate—with oversight by the General Accounting Office and the Justice Department—as things once were.

"That's like re-electing the fox to watch over the hen house," cracked an aide to a Republican member of the House Administration Committee.

Even severe critics of the FEC admit that the agency does a first-rate job in the area of public disclosure—making candidates' and contributors' funding reports available.

"The whole system is what's terribly important," Reiche says. "On Capitol Hill they argue about limiting our enforcement procedures. But full disclosure requires an enforcement capability."

Reiche points out that the FEC is now trying to get away from dealing with hundreds of small violations so that it can concentrate on the larger issues. He says that "we must represent ourselves in court on civil matters because if we used the Justice Department, as the rest of the federal agencies do, there would be a conflict of interest" in cases against candidates who hold federal offices.

OTHERS AGREE with Reiche that the FEC's focus on its role in dealing with violations is showing signs of change. Commissioner Joan D. Aikens, a former FEC chairman, says she's "very encouraged and delighted with the way the commission has been going in the past few years—moving away from rigid, strict interpretations of the law." She points out that "both Congress and the federal courts have had to speak harshly to the FEC at times," to get the commission moving less rigidly.

But Congress itself is not without fault for some of the FEC's eccentricities and problems. For instance, Congress has allowed the standoff between FEC Staff Director Clutter and General Counsel Steele to continue without clear-cut direction.

As a result the continuing confusing problem of who is in control at the FEC has developed into a "blurred senior staff structure, where no one has primary responsibility for day-to-day management," complains Common Cause President Fred Wertheimer.

In addition, Congress is running up a large annual public bill needlessly because it insists on duplicating work it has assigned the FEC to do.

Even though the FEC records and makes available fund-raising and spending reports of all candidates for federal office, Congress insists that all candidates for House and Senate seats file identical reports on Capitol Hill.

But despite these problems and expected new rounds of debate on Capitol Hill in 1983 over expanded political campaign financial reporting reforms, outgoing FEC Chairman Reiche says he "can see the light at the end of the tunnel" in the FEC's battle to survive.

Reiche then fumbles around in the top drawer of his office desk and comes up with some words neatly printed on a card—a comment from an anonymous source that Reiche's wife found somewhere: "We might do well to contain our delight at seeing the light at the end of the tunnel until we make sure it's not some guy coming straight at us on a motorcycle." □

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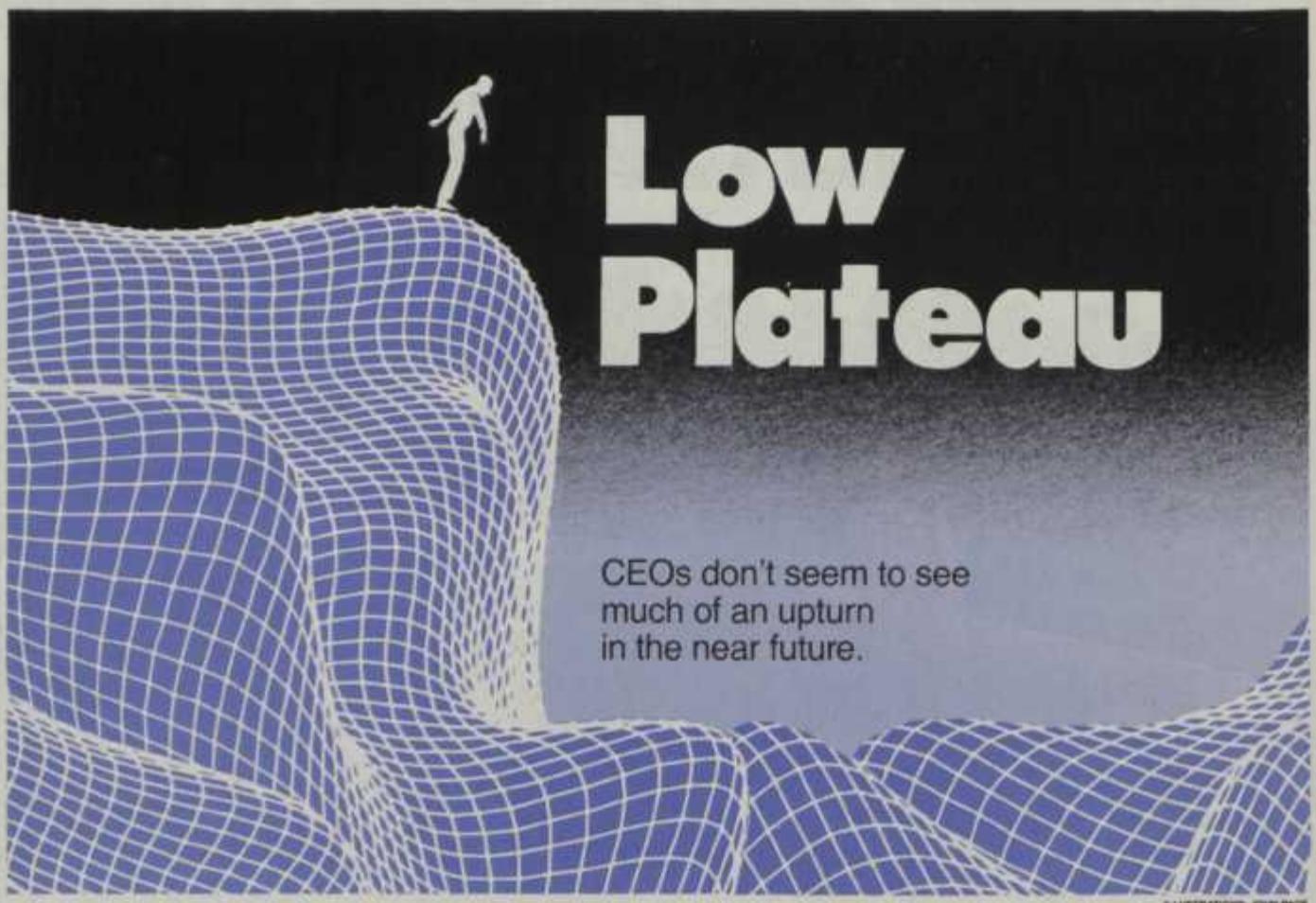
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ILLUSTRATIONS: JOHN PACK

This is a report on the latest Heller/Roper Small Business Barometer, a survey of chief executive officers at more than 1,000 firms that have between 40 and 500 employes.

The survey, designed primarily to show hopes and concerns for the last four months of 1982, was conducted in September by the Roper Organization under sponsorship of the Walter E. Heller International Corporation's Small Business Institute.

Such surveys have been conducted at four-month intervals since January, 1980.

A DECLINE in small business chief executive officers' financial expectations that began in September, 1981, has reached a plateau. Last September's Heller/Roper Small Business Barometer reading shows four-month sales forecasting virtually unchanged from a two-year low registered last May. Although the profit outlook is somewhat gloomier than it was then, most small firm CEOs continue to believe their inventories are not too high.

Borrowing plans are almost identical to what they were in September, 1981. They have fluctuated within a narrow range over the past two years.

A change in regional outlooks has become sharper. When the slide in expectations began, it was concentrated in the East. As the slide deepened, the rest of the country caught up to the East in pessimism.

Last May's survey showed Eastern CEOs' pessimism bottoming out. The latest survey again shows more optimism in the East about sales and profits than in other regions of the country. Also, fewer Eastern CEOs say they expect to borrow less. The survey covers all of the United States except for Alaska and Hawaii.

The effect of high interest rates on small business is highlighted by the report of many CEOs that interest rate levels have kept them from expanding or modernizing. Rates had started to fall when the survey was taken, and they have fallen much further since. However, the decline in its early stages focused on the prime rate—for major banks' most creditworthy customers—and the initial effect on small firms was limited.

Sales

Thirty-nine percent of small business CEOs project four-month sales higher than they were during the same period in 1981 and 33 percent foresee lower sales. That is essentially the same as last May's outlook, when 38 percent predicted higher sales and 32 percent said they would be lower. But the latest projections are far less optimistic than those in September, 1981, when 52 percent were looking forward to higher sales in the final four months of the year and only 21 percent were expecting a decline.

Eastern CEOs express the most optimism about sales, with 43 percent expecting increases. The Midwest and South follow, with 40 percent sharing that belief, and the West has the lowest proportion of optimists—only 35 percent. Wholesalers (46 percent) and retailers (45 percent) prove more optimistic than manufacturers (31 percent) in predicting higher sales compared with the final third of last year.

As in previous surveys, it seems that the longer a CEO's firm has been in business the less optimistic he is about sales increases for the next four-month period when compared with the same period last year. Only 36 percent of those in business 20 years or more expect higher sales, whereas that is true of 45 percent of those in business 5 to 19 years and 55 percent of those still charting uncertain waters after five years or less of operation.

Expectations for higher unit sales, which dropped from September, 1981, to last January, have stabilized. In the latest survey, 31 percent say they ex-

pect unit sales for the final third of 1982 to be higher than for the same period last year, compared with 33 percent who anticipate lower unit sales. This is more pessimistic than a year earlier, when 38 percent were looking forward to higher unit sales and 25 percent were concerned that unit sales would decline.

Profits

Although the forecast for sales has reached a plateau, the profit outlook for the last four months of 1982, as compared with the final third of 1981, has taken a slight dip. Forty-two percent of the small business CEOs (considerably more than the previous September's 33 percent) are anticipating smaller profits; only 29 percent (down from 35 percent a year earlier) see the profit picture getting brighter.

Looking at profits as a percentage of sales, the figures tell much the same story. The ranks of those expecting lower profits have grown to 40 percent from 36 percent last May and 32 percent in September, 1981.

In both measures, the East is the most optimistic region; 35 percent expect higher profits and 34 percent expect higher profits as a percentage of sales. The Midwest follows with 31 percent and 43 percent, respectively. In the West 27 percent expect higher profits and 42 percent expect higher profits as a percentage of sales. The South proves the least optimistic with 24 percent and 41 percent.

Manufacturers are the most pessimistic category, with fewer of them seeing higher profits than service firms, which are in turn less optimistic than wholesalers and retailers.

Employment

In all eight previous Heller/Roper Small Business Barometers, most CEOs responding said they had no plans to change their employment levels over the subsequent four months. This survey is no different—59 percent say their work forces will not change size in the year's final third. However, the proportion planning to add to their payrolls (22 percent) is lower than it was in September, 1981 (24 percent) and last May (25 percent).

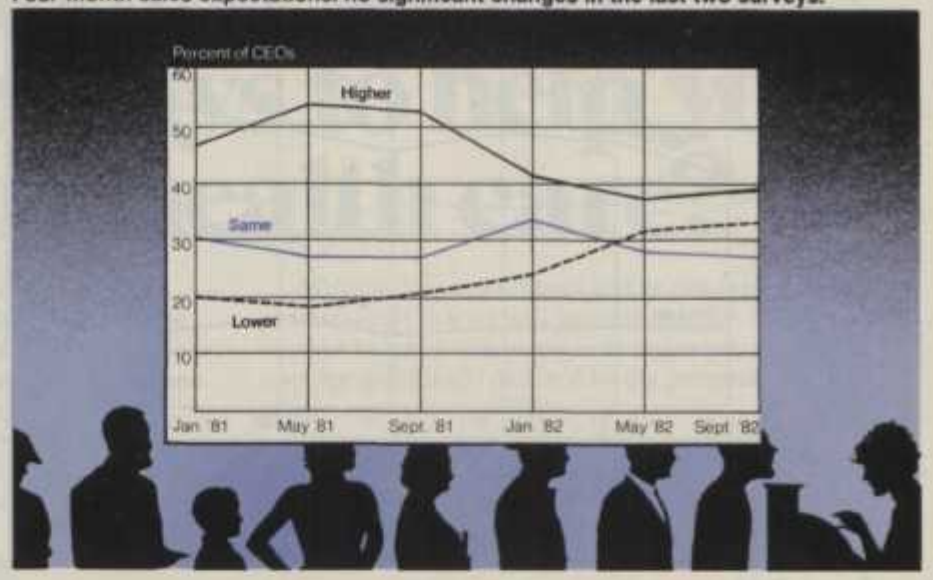
Also, the proportion planning to decrease their work force (18 percent) in the current survey is 4 percent greater than it was in September, 1981, and a statistically insignificant 1 percent greater than it was last May.

Inventories

Concern about excessively high inventories has inched up since May, though it is lower than in September, 1981. The latest survey shows 54 percent think inventories are about right, whereas 30 percent say they are too

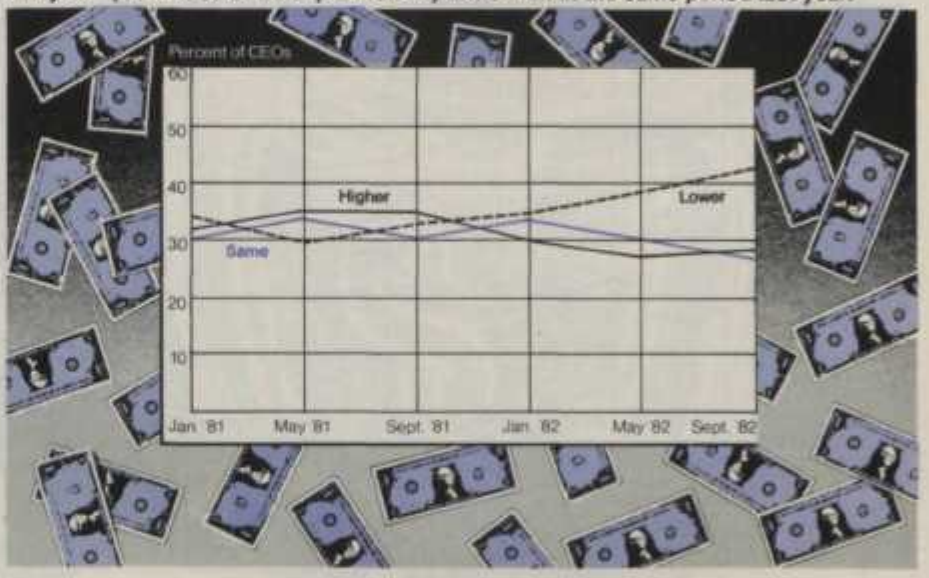
Sales in Dollars

Four-month sales expectations: no significant changes in the last two surveys.



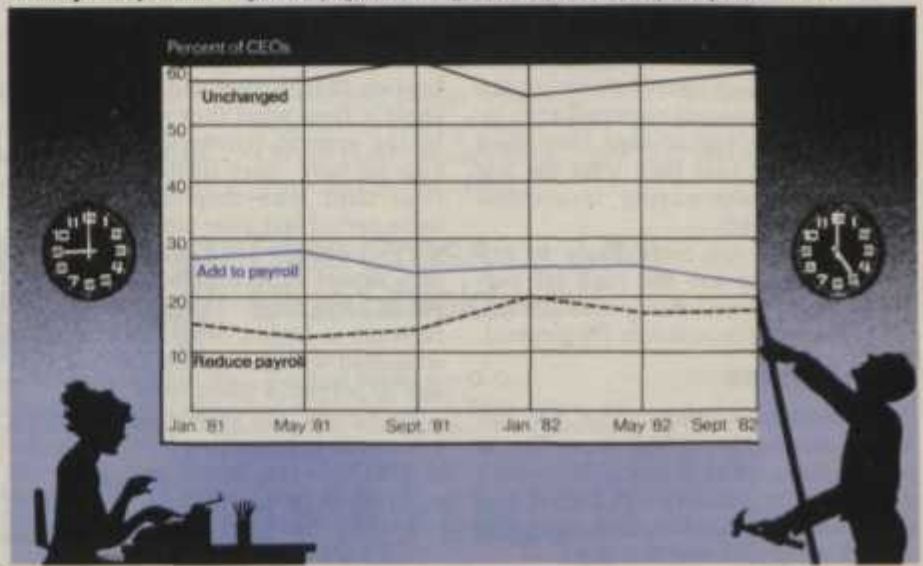
Profits

Forty-two percent of CEOs expect lower profits than in the same period last year.



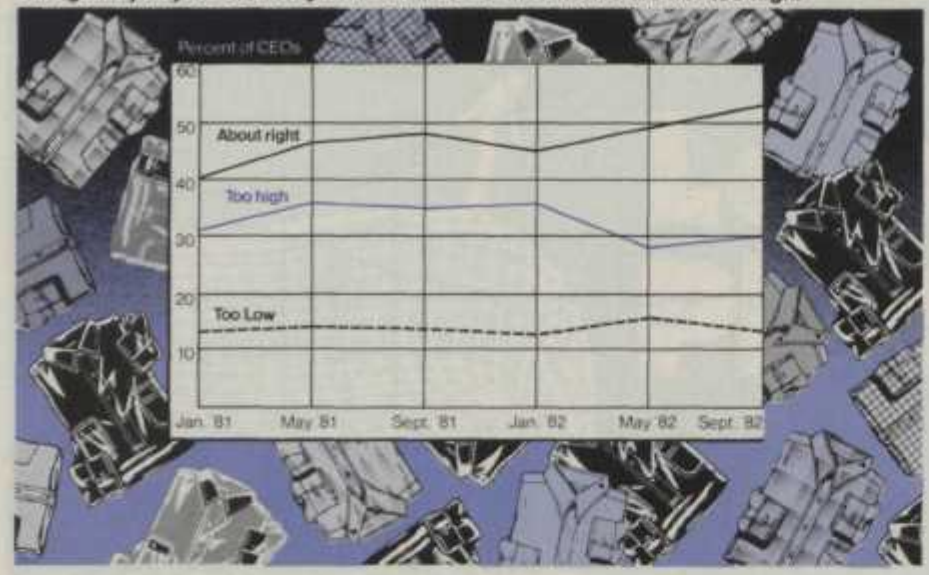
Employment

Twenty-two percent say their payrolls will grow; 18 percent say they will decline.



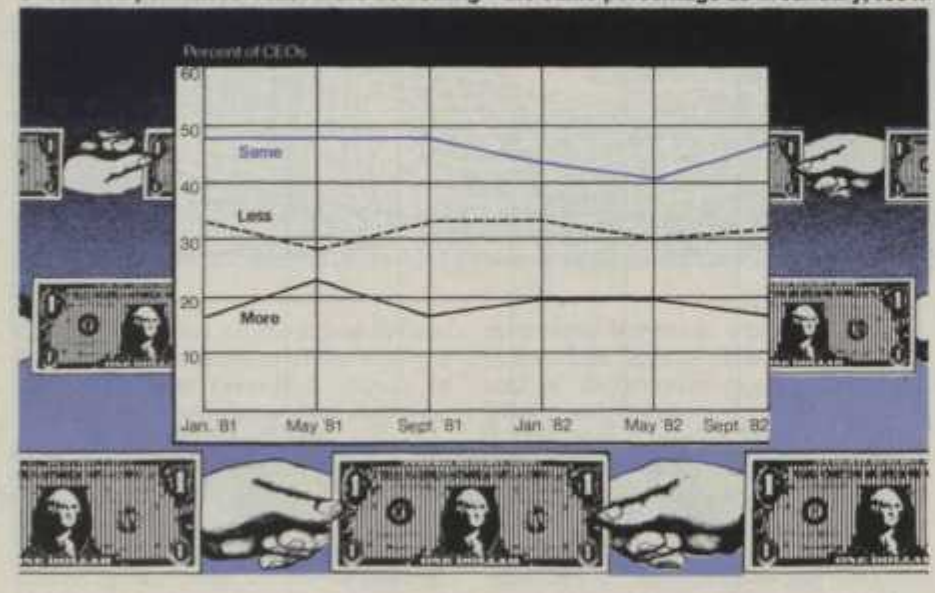
Inventories

A large majority of CEOs say their businesses' inventories are not too high.



Borrowing

Seventeen percent forecast more borrowing—the same percentage as in January, 1981.



high and 13 percent too low. A year earlier, 35 percent said that inventories were too high and 14 percent that inventories were too low (with 49 percent saying that they were about right). Last May, 28 percent asserted that inventories were higher than they liked and 16 percent that they were too low (with 50 percent saying inventories were about right).

Wholesalers are more likely to say that inventories are too high (41 percent) compared with either manufacturers (27 percent) or retailers (30 percent).

Receivables

The median waiting period for collecting receivables is 38.8 days. This is almost the same as it was in May—38.6 days—and in January—39.3 days—of this year. In September, 1981, the median waiting period was 38.4 days.

Borrowing

Projected borrowing levels are very similar to those registered in the September, 1981, survey and are down only slightly from what they were last May. In the current barometer, 17 percent plan to have more debt in the year's final third than they did during the same period last year (unchanged from the September, 1981, survey); 31 percent expect to have less debt (down 2 points since then). In May, 20 percent forecast a higher level of borrowing compared with the middle third of 1981 and 30 percent a lower level.

Regionally, the proportion projecting a decrease in borrowing levels is similar in the Midwest, South and West—33 percent, 31 percent and 31 percent, respectively. The comparable proportion in the East is 26 percent. Also, wholesalers are more likely (37 percent) to contemplate lowering their debt level than are manufacturers (29 percent) or retailers and CEOs of service and other companies (31 percent each).

Interest rates

CEOs were asked what effect high interest rates have had on their plans for expansion and modernization. Thirty-one percent of those answering the question report they have been holding off on such plans because of the high cost of borrowing—down from 38 percent who said so the last time the question was asked in a Heller/Roper survey, in January, 1981. Thirty-two percent say they no longer have any need to expand or modernize—up from 24 percent who felt that way in January, 1981.

Those who have held off on expansion or modernization were asked how low interest rates would have to go before they would proceed with their plans. In January, 1981, the median response was 12.3 percent. In the latest survey it is down to an even 11 percent.

Party preferences

Additional questions—concerning politics—were asked in the survey. The results show small business CEOs believe that the interests of both the nation and of businesses like their own would be best served if the Republicans won control of both houses of Congress in this month's congressional elections.

Half of the CEOs were asked what would serve the best interest of "all the diverse groups in our society," and half were asked what would be best for "improving the economic climate for businesses like your own."

In each instance, 54 percent reply that Republican control of the House and of the Senate would be best; 31 percent say that it would not make any real difference which party had control. Only 6 percent say that the greatest good for all would be best served if the Democrats won control of both houses and 7 percent say that Democratic control would be most advantageous for businesses like their own.

	To Improve Economic Climate	
	For Businesses Like One's Own	For All Diverse Groups In Society
Best if Republicans win both houses	54	54
Best if Democrats win both houses	7	6
No difference who wins	31	31
Split control is best	2	3
Don't know	6	6

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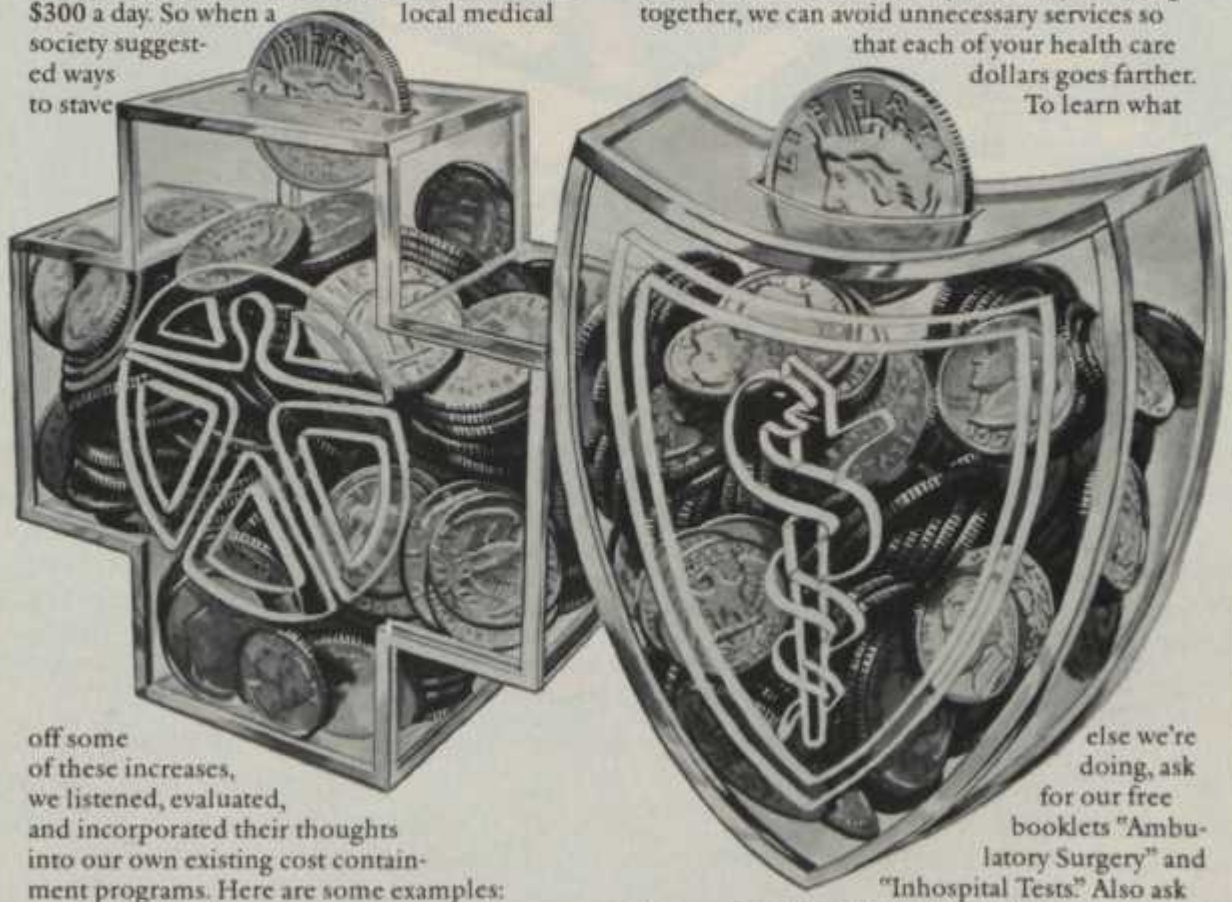
Here in the metropolitan Washington area, the average cost of hospital care has climbed to over $300 a day. So when a local medical society suggested ways to stave off some of these increases, we listened, evaluated, and incorporated their thoughts into our own existing cost containment programs. Here are some examples:

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PHOTO: DENNIS BRACK—BLACK STAR



Sen. Paul Laxalt had a key role in the Senate's unanimous passage of a bill to reform federal rule-making.

An Act Of Mercy For The Regulated

PHOTO: WAYNE FARTLOW



Rep. Elliott Levitas favors giving either house of Congress the authority to veto an agency's regulatory policy.

The drive for legislation that would make government regulation less burdensome may be stalled, but it is not stilled.

SOME MEMBERS of Congress call them the fourth branch of government, complaining that they have almost become a law unto themselves. They are the myriad federal regulatory agencies and the bureaucrats who run them. For decades, it is charged, these agencies have often exceeded the intent of Congress in adopting and enforcing rules that impact on the economy.

No more, says the Senate. In March it unanimously passed legislation titled the Regulatory Reform Act.

The House, expected to act on the legislation soon, has been dallying with its version of the measure all year. The bill has been bottled up in the Rules Committee.

In recent weeks, business and congressional leaders have discussed minor revisions, hoping to arrive at a consensus so a full House vote can be taken.

The outlook, both for prying the bill out of committee and getting House approval, is good.

Meanwhile, the authority of the Paperwork Reduction Act is being used to reduce the number of forms and records that federal agencies require of businesses and individuals. The goal is a 25 percent cut by next October. Responsibility for the pruning has been assigned to the specially created Office of Information and Regulatory Affairs, an adjunct of the Office of Management and Budget.

As for the Regulatory Reform Act, if enacted, it will become the first major overhaul of the 1946 Administrative Procedures Act, which established guidelines for setting regulations. Repeated earlier efforts to rein in runaway regulatory actions always failed to reach floor votes; debate bogged down in complexities and controversy.

This year's measure is no less complex. It allows a legislative veto of proposed federal regulations, grants the President more authority to review the costs of new rules and makes it easier to challenge regulations in court.

Controversy over the measure in the Senate dissipated under a bipartisan drive led by Sens. Paul Laxalt (R-Nev.) and Patrick J. Leahy (D-Vt.).

"After all the years of people talking about making government work better," says Leahy, "we've actually sat down and done something that will."

At its core the reform bill requires cost-benefit analysis. Each agency must decide whether a proposed rule's benefits outweigh its costs.

Such analysis would be conducted on new major regulations—those that would have an annual effect on the economy of $100 million or more in compliance costs.

However, the President could pick out an additional 75 new rules a year and tag them major on grounds that they would substantially increase costs or prices for consumers or industries.

Significant sums are involved. Federal expenditures for regulatory activities will run $7.5 billion in fiscal year 1982, financing a complex of 58 regulatory agencies that issue 7,000 rules each year.

Other provisions of the Senate bill:

- Allow private sector groups greater opportunity to take part in the rule-making process, giving them advance notice of proposed rules and the chance to make oral presentations, examine witnesses and present alternative ways of achieving similar objectives.
- Require that major new rules and amended rules be reviewed by the agency involved within 10 years of their effective date.
- Eliminate a tradition of judicial deference to agency expertise by instructing judges not to presume an agency's interpretation of law is necessarily correct.
- Permit Congress to disapprove a regulation not consistent with congressional intent in passing laws.

This matter of congressional veto of a regulation continues to be debated. Under the Regulatory Reform Act as passed by the Senate, a majority of both houses must veto a regulation in order to block it. No presidential signature is necessary.

HOUSE MEMBERS haven't yet agreed on this approach. Rep. Elliott H. Levitas (D-Ga.) says he will advocate a one-house veto, with the other chamber having the opportunity to override the first veto. The existing House bill calls for a two-house veto plus the President's signature.

The administration is satisfied with the Senate version, and the U.S. Chamber of Commerce, a pioneer in efforts to obtain regulatory reform, strongly supports the Senate bill.

Although the Reagan administration has taken administrative steps to make

agencies more accountable and to lessen the cost of regulations and paperwork, these steps are not enough, according to Sen. Carl Levin (D-Mich.). He says: "We created a class of people who were insulated from the political process and then we turned over to them the implementation of our laws. It was wrong to give them such vast powers."

The Paperwork Reduction Act is a bill that broadly appealed to Congress and to President Carter, who signed it while packing in December, 1980.

In brief but bold language, the act:

- Instructs the OMB director to ensure that information requested by federal agencies is needed, is not duplicative and is collected efficiently.
- Establishes a procedure whereby the director may approve or deny agency requests to collect information from businesses, organizations or individuals.
- Instructs the OMB director to review paper work requirements of existing laws and legislation under consideration and to recommend legislation to reduce paper work.
- Requires a federal agency to review its paper work requirements at least once every three years.
- Authorizes $25.5 million during the 1981-83 period for carrying out provisions of the act.

That $25.5 million should be little more than seed money; if a thorough job is done, the resulting benefits could touch every American's tax bill. For example, a few years ago the Federal Paperwork Commission estimated that the cost of bookkeeping surrounding government forms and records exceeded $100 billion annually. That amounts to a hidden tax of $500 for every citizen.

ALREADY WHITTLING away at that cost, Christopher DeMuth, administrator of the regulatory affairs office, estimates that "200 million hours" have been saved over the past 18 months by reductions in federal paper work. And he is just warming to the task.

In September, for example, the House voted to eliminate or modify 69 reports that executive branch agencies are required by law to send Congress on a regular basis. OMB found them to be outdated and unnecessary. Savings were estimated at $4 million.

Last month DeMuth's office announced the "toughest and most effective program ever established for controlling federal paper work." The program states that no respondent should be required to report information more often than quarterly or submit it in fewer than 21 days. An original and no more than two copies of any document are sufficient.

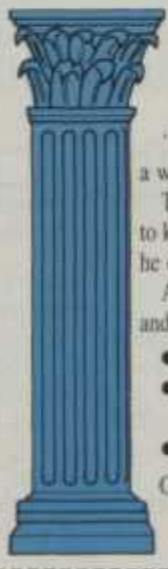
It also says that no one should have to retain any records, other than health or medical records, for more than four years and that separate and simplified requirements should be developed for small businesses and other small entities.

An act so encompassing is bound to confront obstacles, and the biggest one is the Internal Revenue Service. The IRS, with a supporting opinion from the Justice Department, contends the OMB does not have authority over its information-seeking regulations because they predate the Paperwork Reduction Act.

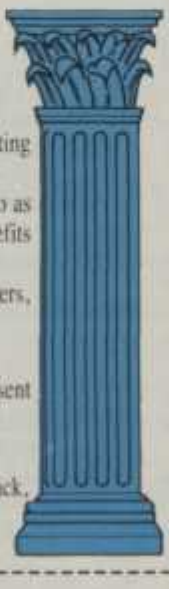
Instead, the IRS is doing its own reviewing and culling.

IRS forms and reporting requirements account for nearly half the total reporting burden the federal government imposes on the public.

Internal Revenue cannot escape the paper work act "by distorting and changing the congressional intent," says Sen. Lawton Chiles (D-Fla.), the act's author. He is planning to seek a court ruling shooting down the IRS contention. □



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FOLLOW THE LEADER

Competing With The Japanese

Motorola's Robert Galvin says his firm can hold its own in a fair contest with Japanese companies. And he says other U.S. firms can if they "work very hard and very smart."

By Grover Heiman

ARE THE Japanese inherently superior to Americans at turning out products ranging from autos to microprocessors?

"That's a myth," says Robert W. Galvin, chairman of Motorola, Inc. "American workers, managers and companies are as competent as the Japanese, person for person, company for company."

It takes a lot to rile this executive, known for his friendliness and courteousness. The myth, which has spread widely in this country, riles him. He has launched an advertising campaign to fight it.

Bob Galvin is also riled because, he says, the myth could become fact. He says Japan's educational system is so good that Japanese workers and managers could eventually become better educated, on the average, than their U.S. counterparts.

As for Japanese companies, he says that if Japan is permitted to continue to protect them against foreign competition, "they will appear superior—they will be stronger because of the collective effort of their country's society."

Galvin, 60, is working diligently for reforms in the rules of trade with Japan that will make the competition fairer. He is particularly incensed over "targeting," a practice in which Japanese firms team up to gain pre-eminence in a particular industry or product line.

PHOTO: TED ROZUMALSKI—BLACK STAR



Bob Galvin's firm is the largest producer of two-way radios. He is holding a mobile model. On the desk: an ancestor, a World War II walkie-talkie.

"In our society," he says, "if a group of companies collectively decide that they are going to dominate a particular market, we consider it illegal. For the Japanese to intend to succeed is one thing; to intend to dominate is another.

"And to take the collective action under government guidance, as they do, is also anathema to the American private enterprise system. I object to the Japanese using techniques that, if employed in our society, would be illegal."

If there is an American firm that is well prepared to compete with the Japanese, it is Motorola.

"Motorola can stand up to the individual Japanese company because we practice basics and do them well," says Galvin. "We in America can readily hold our own against excellent Japanese companies if we invest in research and development sufficiently and implement that research properly, if we invest in modern production techniques and use them, if we work very hard and very smart in our participative management processes and, furthermore, if we have at least the same level of quality expectations."

Motorola had sales of $3.3 billion last year and net earnings of $175 million. Founded by Galvin's father, Paul V., in 1928 as the Galvin Manufacturing Company to make electrical converters and soon thereafter automobile radios, the company has been restructured over the last decade to focus on the cutting edge of technology in three main areas: communications, semiconductors and microprocessors, and computers and data information systems. The firm, based in the Chicago area, has 75,000 employes in the United States and 15 foreign countries.

It is the world's largest producer of two-way radios and a leading manufacturer of other types of communications equipment. It is second only to Texas Instruments, Inc., in the manufacture of semiconductors and the versatile microprocessor chips that run everything from microwave ovens to computers. In both these markets the Japanese are mounting serious threats.

One factor in Galvin's confidence that Motorola can challenge the Japanese is the stability and quality of Motorola's work force, which has withstood union organizers' efforts since the firm opened its doors.

"We are not unionized because our people have perceived accurately that we have a genuine interest in settling issues with individuals in the fairest and most enlightened way," Galvin says. "Many people like to have reasonable control of their individual destiny, and we have collected a large number of them under the banner of Motorola."

The employer-employe relationship is based on mutual respect, Galvin adds, noting that it began with his father and his father's brother, Joe, who headed manufacturing in the early days. An employe in need of financial help—to pay doctor bills or tuition, for example—felt free to come to the Galvins, who in those days scrambled from week to week to meet payrolls.

PHOTO MOTOROLA



This new projector technology, Motorola says, increases productivity and quality in manufacturing circuit boards for cellular radiotelephones.

It was a first-name organization, and democracy was the rule. Bob Galvin recalls coming in for a summer job in 1940 and being sent to the personnel office by his father. There he found several applicants ahead of him. He got in line. A longtime employe came by, recognized him and tried to get him to go right into the office. "No, thank you, sir," Bob replied. "I'll wait my turn."

Word quickly spread through the plant that "P.V.'s son would wait his turn."

WHEN THE FIRM grew to the point where it was no longer possible to know every employe by first name, a longstanding rule did survive—no employe with 10 years or more of service would be fired without Galvin approval. Bob Galvin says the rule won't be changed while he is alive.

Motorola had slightly over 2,000 employes in 1947 when Paul Galvin decided to establish a savings and profit-sharing plan if the employes agreed. He had pamphlets explaining the plan sent to all employes, and he scheduled a series of meetings to answer questions.

At the first meeting only 16 people showed up. The elder Galvin was furious about the poor attendance and wanted to know what was going on. Bob Galvin brought the explanation back—the employes understood the program, and if "P.V." thought they should adopt it, they would.

Bob Galvin also notes with pride that for over 25 years there has not been a single time clock in a Motorola plant. The Galvins, who felt that time clocks were dehumanizing, adopted an honor system. Here again, Bob Galvin has no plans to change the system.

The most recent Motorola personnel innovation is the company's participative management program, an answer to the Japanese quality control circles concept. But there is a difference, Bob Galvin points out. In addition to more employe participation in management decisions and efforts to improve quality, a monthly bonus system gives employes the opportunity to earn a bonus that could amount to 41 percent of base pay. Galvin says the bonus system put the stamp of credibility on the program. "Our employes realized that this wasn't just another buzzword program that would run its course and disappear in due time."

Bob Galvin grew up in Chicago during pre-Depression years when his father was struggling to keep alive a business he had founded with $750 worth of equipment and $565 in working capital borrowed from relatives and friends. Sears, Roebuck & Company was one of the first customers for the firm's alternating electrical current converters.

"We used to move every October," Galvin says. "But we always stayed in the same neighborhood, so I didn't have to change schools. Only later did I learn that this annual move came at lease-renewal time. Landlords would offer you a couple of months' rent free to move in."

In 1929 his father heard about a shop in the New York area that modified home radios for installation in autos. He went to check out the firm's operation and was appalled by its complexity. He decided to build a radio that would fit into any car without much adjustment.

By the following spring he was demonstrating his newly designed car radio at a radio manufacturers' convention in Atlantic City to which he took his wife

and young son. He lacked the money to rent a booth, so he buttonholed conventioneers and ushered them outside to see his product. Soon a crowd had gathered, but not to hear the radio. Rumor had it that Galvin was selling bootleg whisky. But he got enough orders to go into production on his radio, which he named the "Motorola." (The company changed its name to Motorola in 1947.) Not too many years ago, Motorola was making all the radios for Ford, Chrysler and American Motors cars and a majority of those sold for later installation in cars of all makes.

It wasn't until 1933 that the Galvins lived more than one year in one place and not until 1936 that Paul Galvin could buy a house. In those days, his son recalls, he spent most of his nonschool time participating in every game in his neighborhood. But his father would take him to the office on Saturdays and on business trips. Bob Galvin's interest in business, kindled in Atlantic City, grew.

He enrolled at Notre Dame University in 1940 to take a special six-year course that combined business administration with law. At the end of his sophomore year he decided that if he wanted to head Motorola someday, he needed education in science and technology, so he switched to the Massachusetts Institute of Technology. But America was now in World War II. After spending the orientation week at M.I.T., Galvin abruptly returned to Chicago, enlisted in the Army and was assigned to the Signal Corps.

Within a year he was given a medical discharge because of an ulcer. However, this head of one of America's great high-technology companies never did finish college. Early in 1944 he began working in his father's plant. Starting as a stock clerk, he was put in job after job. By 1948 he was executive vice president and in an office next to his sometimes cantankerous parent.

BOB GALVIN soon gained his peers' admiration for his unflappability when dealing with his father. Through the years, associates say, an atmosphere of mutual respect grew between the father with the entrepreneurial bent and the professional-manager son.

The younger Galvin was named president in 1956 three years before his father died. In 1964, the board of directors elected him chairman and chief executive officer.

Under his guidance Motorola has made significant changes in its product mix. Once only a manufacturer of products using parts manufactured elsewhere, the firm went into production of transistors and other semiconductor devices more than 20 years ago. In the early '60s Galvin and his management team decided to get out of consumer electronics and sold off their home radio and hi-fi phonograph divisions. In 1974 Motorola sold its Quasar television production facility and products to Sony. Then in 1980 the firm got out of the business of building car radios for the after-market retail trade.

In 1977, Motorola had bought Codex, a data communications firm, and at the turn of this year, it acquired Four-Phase Systems, a computer manufacturer. Industry experts say these acquisitions put Motorola in a prime position to become a major factor in distributed data processing and office automation. One thrust will be to capitalize on Motorola's two-way radio communications products and the computer-in-the-briefcase era that lies just over the horizon.

> "My style is a participative one. I relegate a good deal of the operation today to others who are clearly more expert in certain details of operation than I am and put my emphasis on what I call leading the institution."
>
> *Robert W. Galvin*

Galvin's management style frees him to concentrate on the company's future.

"My style," he says, "is a participative one. I relegate a good deal of the operation today to others who are clearly more expert in certain details of operation than I am and put my emphasis on what I call leading the institution."

Galvin divides executives into three groups. The largest is made up of those who run the business on a day-to-day basis. The next, much smaller, consists of those with responsibility for putting all the pieces together, balancing one activity against the other and checking on the whole.

Finally there is his own rarefied category, the executive who "leads the institution by fashioning functions, directions and emphasis."

Although Galvin has sought positions of responsibility throughout his life and has never been reluctant to step forward, he says he has had no thirst for leadership for leadership's sake. "I love team sports," he says. "I always just enjoyed being on a team." He fondly recalls playing on his old Chicago neighborhood's softball team.

HE HAS NEVER forgotten the old neighborhood, even though he and his wife, Mary, moved 20 years ago with their two sons and two daughters to a 500-acre working farm near Barrington, Ill. (None of the children live there now.) The farm is not far from Motorola's headquarters in Schaumburg. Usually in the office by 8:30, Bob Galvin has already been busy at the farm with a time-consuming fitness regimen that calls for calisthenics, jogging and a swim in a heated indoor pool. To top it off, he climbs the stairs to his 14th floor office. He plays tennis, and twice a year he goes skiing at Vail; one vacation is spent with his family, the second is a bit different—he takes to the slopes with a group of old friends, some from the old neighborhood.

"My father always told me not to forget your old friends," Galvin says.

Are any corporate tycoons in the group? "They are guys I met in high school or along the way a long time ago. I'm privileged to know some people with big titles, and I think they are super people, but I don't go skiing with people simply because they have big titles. These are a nice group of guys. We ski hard, and we like our relationship. We are friends because we can laugh at each other—we do that a lot—and we can tolerate each other."

Although Galvin may have a lot of tolerance for friends, he has less for Japanese trade practices and protectionism. Testifying before the Senate Foreign Relations Committee last September, he said U.S. policy on trade in high-technology products should make it clear that this country "will not accept a situation where foreign national industrial policies, based on nonmarket mechanisms and unreasonable trade practices, enable any country to disrupt U.S. markets, prevent reasonable access to its home markets or give unjustified advantage to its firms in pursuing Third World markets."

Galvin concluded: "The best way to avoid future confrontations is for the United States to let Japan and others know where it stands and act accordingly." □

To order reprints of this article, see page 69.

COMPANIES THAT LOCATE IN RESTON HAVE A HISTORY OF MAKING SMART BUSINESS MOVES.

The six major corporations represented on this page are all considered among the leaders in their fields. And all believe locating in Reston was one of the smartest business moves they ever made.

PIEDMONT

For example, a dramatic 37 percent growth in 1981 encouraged Piedmont to open a Mid-Atlantic Reservations Center. Washington's sophisticated long distance phone system immediately attracted the airline to this area. However, it was Reston's campus-like environment that won out over the distractions and pressures of a downtown location.

Here, companies conduct business from offices overlooking golf courses, beautiful homes and literally thousands of trees. Tandem Computers was impressed with the work environment Reston offers. After all, Tandem's emphasis on a positive business atmosphere has been a major factor in helping them maintain one of the lowest turnover rates in the high tech field.

TANDEM COMPUTERS

The same type of success has been shared by Advanced Technology, which after only five years in business joined INC. magazine's list of the top 100 fastest growing, privately held companies. While Reston's aesthetics played a role in the firm's decision to locate here, the available, high quality work force was the conclusive factor.

AT Advanced Technology

In fact, the area labor market is in excess of half a million people with a healthy percentage qualified for professional and managerial positions.

In addition, you'll discover more engineers and computer specialists here than anywhere else in America. So it's not surprising a company like Litton Computer Services would want to locate amidst this high concentration of brain power. And move to a business and residential community that has a reputation for attracting the very best minds.

Litton

For many high tech corporations and other firms, the most attractive aspect of Reston is its close proximity to Capitol Hill. For instance, Sperry is well aware the Federal Government spends nearly $30 billion annually on electronic systems and equipment. By locating here, Sperry positioned itself only 18 miles from where the contracts for such goods and services are awarded.

SPERRY

Obviously, before a company moves, it considers the accessibility of the new location to its markets. Arthur Young & Company did just that before moving to Reston. And their market is the world.

In fact, this professional service company has 11,000 employees in foreign countries and 7,000 in the U.S. But with Dulles International Airport 5 miles from here, and National Airport just a bit further, no employee is more than a few hours away from the firm's Educational Services Headquarters in Reston.

ARTHUR YOUNG

Of course, our corporate roster features more than just six businesses. There are over 500 highly successful firms benefitting from the advantages Reston has to offer. If your company is preparing to relocate, the smartest move you can make is to learn more about one of Washington, D.C.'s fastest growing business centers. Reston, Virginia.



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SPECIAL REPORT

Economic Development

Planning Your Future Factory

By Harry Thompson and Michael Paris

For much of America the industrial revolution has come and gone. It has been replaced by another revolution destined to be just as far-reaching: the burgeoning of sophisticated high-technology and service industries. This new revolution is bringing with it demands on the economy. Millions of jobs will be created, and millions will be made obsolete. New company stars will shine in the economic firmament, and those enterprises that fail to keep up will fade from view. The growth of automation will become more visible in the rest of the 1980s and in the 1990s as more and more work is delegated to computers. There will be radical changes as a result, in production and in management.

Articles on the following pages discuss some changes that are coming, have already come or may come—changes providing opportunities and challenges.

HOW WILL NEW computerized manufacturing technology affect business in the future? Not only will it change the way goods are made, but it will change the way companies are run.

Manufacturing executives have no real place now in the strategic decision making of most U.S. corporations. Operations generally does not have top management's ear or its full understanding. This will have to change if industry is to exploit the technological opportunities inherent in computer-integrated manufacturing. Manufacturing will need a strategy that is closely linked to overall corporate plans.

Use of the computer on the factory floor can change the strategic focus of a company because it changes the nature of manufacturing itself. The combination of the computer-aided design and computer-aided manufacturing functions and the control of a group of automatic machine or assembly tools by computer software allows engineering and manufacturing groups to work together in a continuous process. They can design, simulate operating conditions, compare stored information with predetermined equipment capabilities and process a part, including fabrication, assembly and movement from one machine to another. To close the loop, computerized inspection can monitor performance and feed back results.

Advantages of computer-aided design and computer-aided manufacturing are multiplied when the two processes are integrated factory-wide. After integration, descriptive engineering information can drive manufacturing directly. Computer-integrated manufacturing is a system that manages the flow of management and production information, the movement of materials, and the schedules of people, materials and machines.

As part of this integration, actual inspection can be mechanized. Operations become self-diagnostic and self-correcting. In a computer-integrated factory, machines will produce only good parts.

This technological revolution could result in fewer direct laborers, a wider variety of products and less inventory. In addition, the factory of the future will call into question time-honored production concepts.

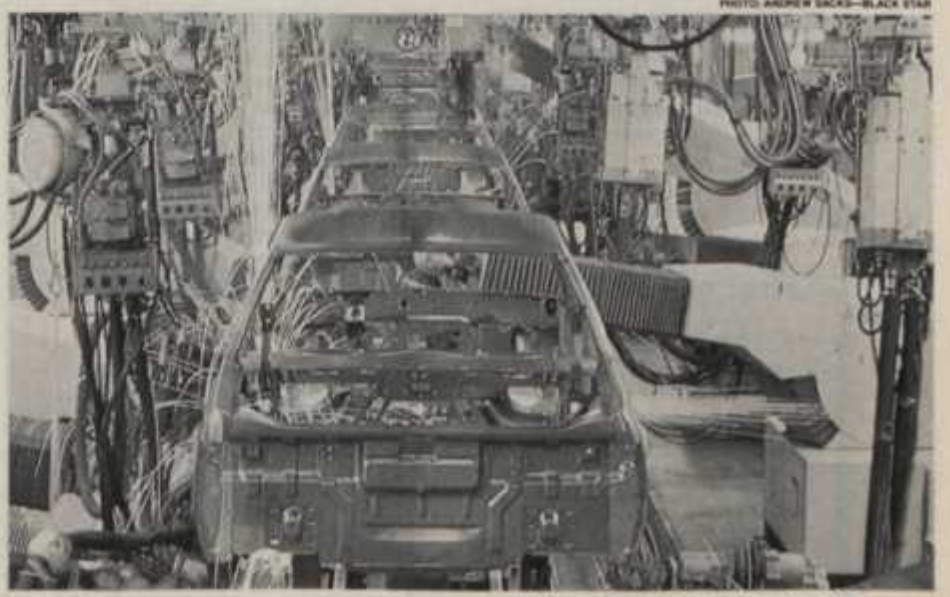
If machines can produce the first part as rapidly and accurately as they

PHOTO: TOM TRACY—BLACK STAR



In a computer-integrated factory it is possible to have machines that produce only good parts.

PHOTO: ANDREW SACKS—BLACK STAR



Multipurpose equipment may make mass production—even that in this robotized auto plant—outmoded.

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do the 1,000th one and if setup time and change-over time are virtually immediate, then the so-called learning curve, which traditionally shows labor costs decreasing as people gain more experience in making a product, would be flat. And the economic order quantity—the quantity yielding the most inexpensive combination of production and storage costs—would be one unit.

Economies of scale, in which unit costs keep dropping as production volume rises, would also become irrelevant as flexibility enables production of volumes of dissimilar items.

BUT THE REAL breakthrough implicit in all the sophisticated hardware and software is the ability given management to organize and direct huge amounts of information. This information would control such things as:

- A schedule of machine sequences to produce a part.
- Operating instructions for each machine, including tool identification.
- Quality control, including criteria for a part's conformance to its design.
- Production schedules that include machine time required to produce each part, machine loading and final delivery dates.
- Estimates of the unit cost of each operation and of specific products.
- Material procurement.

Manufacturing information would

Questions To Ask Yourself

A company that is considering computer-integrated manufacturing should objectively assess its current design and manufacturing operations, keeping long-term objectives in mind, says Thomas G. Gunn of Arthur D. Little, the Cambridge, Mass., management consulting firm. Ask a number of important questions, says the author of *Computer Applications in Manufacturing* (Industrial Press):

- Where will we get our engineers 10 years from now? What will we have to pay them?
- How can we bring new designs and products to market more quickly?
- How can we improve product quality while lowering costs?
- How can we obtain a more flexible and responsive manufacturing environment?
- How do we eliminate unnecessary layers of personnel and streamline our operations?
- How do we compete effectively against worldwide competitors?
- How should we be structured to serve our target markets?

need no longer be stored and conveyed in the form of blueprints, routings, jigs, fixtures or special single-use machines. It could be stored and moved about via the computer software.

When manufacturing is information-intensive, any process can be replicated easily. The result is a flexible fabrication system that allows management to change products and processes effortlessly. Since multipurpose equipment will be able to produce more than one item and perform more than one job, manufacturers will be able to change the equipment's function instantaneously. Mass production may become outmoded.

Even this understates the potential benefits of the new technology. Product engineers will also be able to use information to explore the costs of different designs, whereas manufacturing engineers use it to evaluate different processes. Inventory will be adjustable according to production and distribution variations. And coordination of manpower availability and production requirements will be possible.

In short, the computer will answer management's "what if?" questions, doing so before a part or a product is produced.

Michael Porter, in his book *Competitive Strategy*, suggests that there are three generally accepted business strategies: cost leadership, differentiation and focus. How will the new manufacturing technology affect these? Although each will continue to be needed, their relative importance will change.

Differentiation strategies will become more important. With equipment that can produce a variety of products on the same line, a company will have different marketing options. The company may also have more competition from firms with the same process capability and capacity.

In addition, unit production costs will become more standard as more companies install computer-integrated manufacturing. A differentiation strategy—one that distinguishes a product by design delivery or service—will therefore flow naturally from manufacturing flexibility.

FLEXIBILITY will provide opportunities undreamed of in the past for customization and niche marketing. Marketing and design engineers will be able to ask very specific questions:

- Why not design motors and compressors for the precise application and location of their use? Refrigerators or air conditioners, for example, could be designed differently for use in a warm climate as opposed to a cold one. Customizing motors to the horsepower requirements of a specific application could also reduce energy consumption.
- Why not design power train compo-

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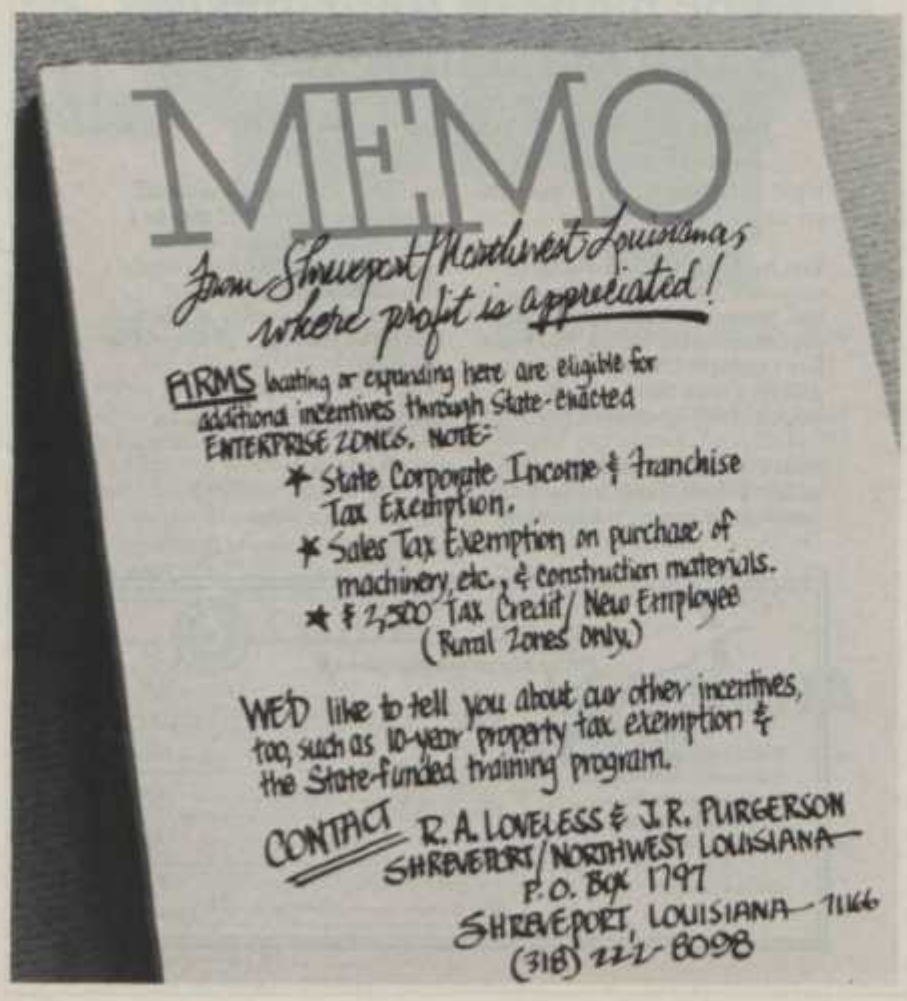
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nents with a variety of gear ratios for different operating conditions? Why not offer a K-car with different power ratios for San Francisco and for the prairie states? Why not offer seats and dashboard instruments configured to individual tastes?

This type of flexibility will make new strategic choices possible. A company may decide to locate miniplants near customers or raw materials to improve customer service while lowering land costs. It may decide to customize its products or broaden its product line. If the new strategy is to introduce new products rapidly, management will in effect shorten product life cycles.

A common example will make this clear. In the past many U.S. manufacturers have had the "West Coast blues." Volumes of any one product did not justify a plant, but the overall West Coast market was large enough to be attractive. The only options were to open an inefficient West Coast plant and hope that growth would eventually make it profitable, live with a low profit margin because of distribution costs from an Eastern plant or back away from an opportunity.

In the future, companies will not need large volumes of the same product. With computer-integrated manufacturing, they will be able to aggregate dissimilar processes and products instead. A multipurpose West Coast plant or a small plant adjacent to a key customer might become practical.

Production capabilities of large plants will be feasible at little cost penalty in much smaller ones because of the flexibility inherent in the hardware and software. Bigger will no longer necessarily be better.

WHAT WE HAVE THEN is a business revolution, a revolution that has just begun. Most of the things mentioned can be accomplished today with existing hardware and software. Clearly, planning must begin today if a firm wishes to benefit from this revolution.

The emerging technology will mean that more competitors can enter more markets. As a result, traditional marketing techniques will no longer guarantee market share. Nor will they keep prices low. Firms will not be able to emphasize only a product's cost. Custom-made products, a diverse product line, high quality without higher prices and better customer service will distinguish the successful manufacturing companies in the next 20 years. This will require full exploitation of the potential of the new manufacturing technology by an integrated, effective management team. □

HARRY THOMPSON *and* MICHAEL PARIS *are on the staff of A. T. Kearney, Inc., a Chicago-based consulting firm.*

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DISCOVER THE GREATER CINCINNATI ADVANTAGE.

ECONOMIC DEVELOPMENT

A Case For Enterprise Zones

This congressman wants to stimulate inner cities by stimulating entrepreneurship.

By Rep. Jack Kemp

WHEN Rep. Robert Garcia (D-N.Y.) and I introduced enterprise zone legislation in the summer of 1980, we underestimated two things. One was how eagerly people would grasp any new idea for helping the inner city. The other was the challenge and threat that enterprise zones posed for traditional theories about how to encourage urban economic growth.

Since then enterprise zones have taken on a life of their own. Thirteen states have enacted enterprise zone statutes providing tax and regulatory incentives for businesses to create jobs in depressed areas. And such statutes are being debated in the legislatures of most other states. Virtually all big cities and many smaller communities have an enterprise zone task force picking and preparing sites. In states where enterprise zones are already under way, thousands of jobs have been created.

States that have already enacted their own enterprise zone laws are Arizona, Connecticut, Indiana, Kansas, Kentucky, Louisiana, Maryland, Ohio and Virginia. More than 150 enterprise zone bills have been introduced in 29 other states.

Last year Connecticut passed the nation's first official enterprise zone bill. Just last month Gov. William A. O'Neill announced that parts of six cities have been designated enterprise zones—Bridgeport, Hartford, New Haven, New Britain, New London and Norwalk. These programs are state-run.

The federal government has lagged behind these state efforts. Still, our bill, reintroduced this year with Rep. Barber Conable (R-N.Y.), has acquired 130 cosponsors of both political parties in the House, as well as nationwide sup-



PHOTO: DENNIS BRACK—BLACK STAR

Rep. Jack Kemp, a New York Republican, urges risk-taking by business.

port. And the Senate Finance Committee has voted favorably on a similar bill and sent it to the Senate floor.

State and local governments would compete for federal approval of their plans to set up enterprise zones, under the Enterprise Zone Tax Act. The bill would permit establishment of up to 25 federally sanctioned zones annually for three years. The federal government would offer major tax incentives for job creation and entrepreneurial growth in the zones. The bill would:

- Eliminate capital gains taxes on investment within the zones and provide an additional tax credit for investment.
- Provide an employer with a tax credit equal to 10 percent of the employer's total payroll in the enterprise zone and an additional credit for hiring disadvantaged workers. The disadvantaged workers credit would equal 50 percent of the workers' wages for three years and declining percentages for the following four.
- Give employes a personal income tax credit equal to 5 percent of wages earned in the zone. (The Senate Finance Committee eliminated this provision from a similar Senate bill before reporting out the measure.)

IN RECENT YEARS we have learned more about where new economic opportunities are generated. The groundbreaking research of David Birch, whose Massachusetts Institute of Technology Program on Neighborhood and Regional Change conducted a computer analysis of 4 million businesses, revealed that two thirds of the new jobs in our economy are created by small businesses employing 20 or fewer people. This proportion is even higher—



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closer to 100 percent—in central cities and the industrial Northeast and for young and minority workers.

"The job-generating firm," concluded Birch, "tends to be small. It tends to be dynamic (or unstable, depending on your viewpoint)—the kind of firm that banks feel very uncomfortable about. It tends to be young. In short, the firms that . . . generate the most jobs are the ones most difficult to reach through conventional policy initiatives. . . . The data suggest that cities that wish to capitalize upon the job-generating powers of the smaller businesses within their boundaries are going to have to complement the traditional economic development vehicles with . . . indirect tax and regulatory strategies that foster the 'percolation' of thousands of small businesses at the same time they work on the politically more satisfying task of handing out money directly."

He could have been writing a description of enterprise zones.

It has become political fashion in Washington to quote the M.I.T. study's data. The conclusions are another matter. Some people are simply unhappy about the uncertainty that will always plague any effort to help small, risk-taking firms. "How," it is frequently asked, "are we going to know just which businesses will start up in enterprise zones?" And then there are some people who simply oppose any development projects that are not under day-to-day government control.

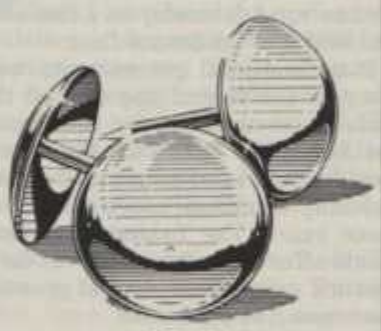
ENTERPRISE ZONES have no hidden agenda for eliminating government programs. The zones won't rebuild roads or sewers, although the expanded tax base the zones should supply would help pay for the rebuilding. They can't replace—although they should complement—federal efforts to provide job training or undertake large-scale development projects.

But they can provide a cost-effective tool for assisting the most potent job generators: the small firms that cannot easily get help through traditional grants and loans. We cannot, after all, ask the taxpayer to underwrite new small firms when four out of five such firms fail in their first year. We can encourage entrepreneurial risk-taking by offering tax incentives that promise greater rewards if the risk succeeds.

Enterprise zones are no panacea. But they are an urban proposal that reflects a realistic understanding of the source of new jobs and economic development in our cities.

The enterprise zone idea is stimulating a healthy debate once again on how to encourage entrepreneurial capitalism as a tool for restoring inner-city economics. My goal for America is to make the nation once again a free enterprise zone. □

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PHOTO: DOUG WILSON—BLACK STAR

The Work Force Of the Future

Robotization, female employment, age levels and—above all—training will be keys to economic development.

By Pat Choate and Noel Epstein



PHOTO: XEROX CORPORATION

Until the mid-1990s, two out of three new workers will be women. Many, like the apprentice machinist in the top photo, will seek jobs that traditionally have been male. Meanwhile, advanced technologies will require intensive training.

TECHNOLOGICAL ADVANCES and expanded trade promise to transform work and the American economy in the late 20th and early 21st centuries at least as much as the industrial revolution did in the late 19th and early 20th centuries.

It already is clear that robotization will do for manufacturing what mechanization did for agriculture: increase productivity while eliminating millions of existing manufacturing jobs.

Banking, insurance, transportation, communications and other service industries are just beginning to introduce advanced technologies that will revolutionize service work. Widespread adoption of electronic mail, word processors, electronic banking and personal computers will also eliminate millions of jobs—as will stiffened foreign competition. As late as 1960, the total value of U.S. imports constituted less than 5 percent of the gross national product. Today it exceeds 13 percent—and it is growing. At the same time, America's competitive position in world markets has slipped. In 1960 the U.S. share of world exports of manufactures was 25 percent; by 1980 it was less than 17 percent.

As a consequence of technological advances and expanded trade, management expert Peter Drucker predicts that in the next 20 years U.S. manufacturing employment will drop from 21 percent of the work force to less than 10 percent, eliminating 10 million to 15 million jobs. Even if Drucker is only half right, between 5 million and 7.5 million manufacturing jobs will disappear. At least an equal number of service jobs will also become obsolete.

The force and speed of these changes will be awesome. Although as late as 1979 the United States had only 2,000 robots, for example, they are likely to number at least 200,000 by 1990. And as was the case with hand-held calculators, the price of robots will decline quickly while the quality and range of their applications increase.

At the same time, millions of jobs will be created. The rapid advances in computers during the past two decades and the explosion of computer-related jobs are a classic example of how the technological creation, obsolescence and replacement process works and how it creates jobs. Likewise, the growing affluence of both industrial and less developed nations offers new potential for American exports and thus for the creation of American jobs.

Several recent studies have identified employment that will be created between now and 1985. A Defense Department study of the need for skilled workers estimates a shortage of more than 125,000 engineering technicians, 400,000 electronic technicians, 37,000 data-processing and machine-repair specialists, 33,000 sheet-metal workers, 600,000 construction crafts workers, 280,000 heavy equipment mechanics and 1 million secretaries.

A survey of 671 member firms by the American Electronics Association shows a need to fill over 113,000 engineering and 140,000 paraprofessional engineering jobs. And these projections do not include replacements for worker attrition.

IF THIS COUNTRY'S workers and businesses are to make the adjustment to the jobs of tomorrow, a number of basic demographic and institutional issues must be addressed today.

The first is the dramatic slowdown in the growth of the American work force. Although the post-World War II baby boom created a large pool of workers from which American firms could draw

PAT CHOATE, *an economist, and* NOEL EPSTEIN, *a journalist, are planning a book on what they call America's human capital.*

in the past two decades, this will become much less the case in the 1980s and, particularly, in the 1990s. Current workers still will constitute over 90 percent of the American work force in 1990 and more than 75 percent in the year 2000.

Thus, how well and at what pace the United States uses its workers in meeting critical economic challenges will be heavily affected by how well and at what pace today's workers are trained, retrained and upgraded.

A second basic issue that must be confronted is the continued expansion of female employment. Indeed, until the mid-1990s the major source of new workers will be women. Almost 1 million women will come into the work force each year for the balance of this decade, constituting two of every three entrants. Although a significant number of these women are prepared for more than traditional "woman's work," most continue to find their opportunities confined to such areas as clerical and secretarial jobs, retail and service trades and other employment in which pay is low and opportunities are limited.

Integrating women more fully into the work force is a major social challenge. For firms that can make such a transition rapidly and effectively, the problem of worker shortages can be reduced, even eliminated.

The aging of the work force is also creating major opportunities and problems. On the positive side, the portion of the population aged 25 to 44—generally considered the most productive core—is growing, opening the way for increased productivity if workers in this age bracket can be adequately trained.

On the negative side, there is the trend toward early retirement. A large number of the nation's most skilled workers were trained during and immediately after World War II. Unless training programs are created to replace them as they retire, there will be major shortages of skilled workers.

A FOURTH key demographic issue is the growing number of adult workers who are dysfunctional. At least 6 percent of the work force are alcoholics, costing the economy over $28 billion a year in lost production. A lesser number have drug dependencies that hamper their work performance.

More and more unemployed Americans, including those who have lost their jobs in the automotive, steel, textile and apparel industries, lack either the academic or functional skills required by the new jobs emerging in the electronics, high-technology and service industries. If these people are to work again, they must be retrained, perhaps even relocated.

Even more critical, millions of American adults are functionally illiterate, and large numbers of youths are leaving school with woeful preparation for the world of work. Last summer the National Center for Education Statistics reported a steady decline during the 1970s in the already low skill levels of American students in reading, writing, mathematics and science. It concluded that unless this trend is reversed by 1990, between 900,000 and 2 million of the 2.4 million high school graduates coming into the work force by then will lack skills essential for entry-level employment.

At present, the employment and training policies, institutions and programs of the public and private sectors are unequal to the challenge of preparing America's workers for the jobs that will exist. There are four basic deficiencies:

First, the public sector's training policies have been narrowly focused on a small portion of the work force. Public vocational training programs annually involve fewer than 1 in 12 potential workers, and most of this effort is fo-

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cused on the young and the culturally disadvantaged unemployed. Attention to these groups unquestionably is needed, but many employed people also require training.

Second, training responsibilities are highly fragmented among public agencies. A 1979 case study of a representative community by the General Accounting Office found that even though federally sponsored training programs were simplified in 1973 through consolidation of several programs into a block grant under the Comprehensive Education and Training Act, the community still had 44 distinct training programs dispensing a total of $22 million annually. These programs involved five federal departments and three independent agencies, one federal regional council, 26 national and state organizations, and more than 50 local agencies. The GAO noted this example was neither unique nor extreme.

THIRD, public training programs have been poorly managed. Basic management tools—such as information about available jobs and workers to fill them—are missing. Absurdly, the computers in the employment offices of the 50 states are not connected, preventing unemployed workers in one state from identifying available jobs in another state. Also, under the CETA program, which has spent over $50 billion since 1974, training funds have often been used for pork-barrel political purposes—providing patronage and a medium of political currency. Not surprisingly, most employers have been reluctant to participate in such poorly managed efforts.

The final policy deficiency has been a lack of government coordination with existing business training activities. Business annually spends $30 billion on training—more than three times all federal, state and local government training expenditures combined.

Except for limited tax incentives to hire the hard-to-employ, there are still no public incentives for firms to invest in workers comparable to incentives given them to invest in improved machines and technology. Thus, American business last year spent $300 per worker on training versus more than $3,300 per worker in capital investment.

However, more complex machines and more sophisticated technology require better trained and more skilled workers. Moreover, if there is now a logic to stimulating business investment in improved plant, equipment and technology, there is an absolute parallel logic to creating a similar incentive for business investment in training.

Fortunately, though the nation's training policies are deficient overall, there are enlightening experiences that can provide the foundation for a solid reform. For example, through local private industry councils created under CETA in a number of communities, such as Boston and Baltimore, business leaders have helped create training programs that are directly related to employers' needs. In Southern and Southwestern states, such as Oklahoma, South Carolina, North Carolina and Georgia, state vocational education departments have created customized programs that train and retrain workers to meet specific needs of employers. These programs have proven enormously popular and effective.

An extension of proven experiences is now required. The first step in this process has just been completed with the reform of the old CETA legislation into a streamlined program heavily focused on jobs businesses need to fill. But reforming CETA is only part of what must be done in worker training if American businesses are to keep pace with technological advances and foreign competition.

VOCATIONAL EDUCATION programs, which will provide entry-level training to as many as 5 million new workers in this decade, have to be oriented to the requirements of employers in the programs' service areas. There is need for a major review of the lack of incentives to firms to provide training and how such incentives should be created—particularly for smaller firms that would most benefit from such assistance. Critical needs for machinists, engineers, electrical technicians and others must be specifically identified and a program created to fill these shortages—perhaps much as was successfully done with engineers in the late 1950s. Finally, the nation should have an effective program to help displaced workers get information about potential jobs and acquire retraining and, when necessary, relocation assistance.

Reform of the training policies, programs and institutions of the public and private sectors must proceed in a manner that can bring all the parties together effectively. It must be structured in such a way that participants can perform those parts of the larger effort for which they are individually best equipped. The tasks of retraining the American work force are too great for any one segment of our society to tackle alone.

How well these policies are conceived and implemented will in large measure determine America's economic and social future. As difficult and expensive as the task of creating and implementing a national training policy will be, we have no choice but to proceed. □

The $100,000 Worker

The American worker of today can be called the $100,000 man—or woman. That's how much money it costs, on the average, to create and support each job.

In calculating investment per worker, there usually is a tendency to simply determine the amount of money invested to create each job. Little thought is normally given to the total investment that goes into a job, including provision for support of the worker.

As a starter, take schooling. The average person in the work force has 12.4 years of education. At today's prices, the cost of educating such a worker is about $31,000.

In terms of actual job creation, in 1979 the value of all plant and equipment being used in the productive process by the private sector was $3.9 trillion, or an average investment of nearly $50,600 for every private sector worker that year. For those in agriculture, the average investment was more than $82,000; some $45,000 of that was for equipment, the rest for structures.

Manufacturing employes had an average investment backing up every job of about $43,000, of which $27,000 was for equipment. It surprises many, however, that the investment in nonmanufacturing jobs was 19 percent greater—about $51,000. But that is because of the significantly larger investment in structures—stores, hotels, etc.

In addition to the private investment in plant and equipment, there is the building of public support facilities—highways, streets, sewer and water systems. These and similar public investments are necessary for the functioning of the economy.

The total public investment, not including military equipment, is the equivalent of $17,500 per worker in the private sector.

Based on these figures, then, we arrive at this breakdown of total investment per average worker in the private sector:

Education	$31,000
Public facilities	17,500
Private facilities	50,600
	$99,100

This analysis is by Martin Lefkowitz, a U.S. Chamber of Commerce economist. It is condensed from a version that appeared in the journal AIPR.

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Does The Jobless Rate Do The Job?

By Del Marth



Lines of unemployed workers were the focal point of political debates over the state of the economy this year, but many experts say the official jobless figures are not totally valid as a measure of hardship. Trends in employment should also be taken into consideration, they argue.



PHOTO: LAWRENCE K. DODGE—UNIPHOTO

FOR THE NEWS MEDIA, it is an automatic lead story: "The nation's unemployment rate last month rose to so-and-so percent." Significant? Maybe.

If there is a curse on the times, it is that nothing any longer is accepted at face value. Leaders, businesses, government agencies, the network news, statistical reports—nowadays all are subjected to such permeating analyses that their actions or statements inevitably draw the response, "Yes, but..."

And so it is with the Labor Department's Bureau of Labor Statistics when it releases its monthly report on the nation's jobless rate.

"Yes, but..."says the AFL-CIO. It says the bureau's report that more than 11 million Americans are unemployed does not count those who have given up trying to find work. Therefore, it says, the total number of unemployed is much higher.

"Yes, but..." says the Reagan administration, calling for attention to the total number of employed, which has been around 100 million for several months, compared with 90.5 million five years ago.

"Yes, but..." say some economists. They say the unemployment and employment figures measure only the number of people who are working and not working, so the monthly bureau report is not an index of a real social concern—economic hardship.

Naturally, no one likes his or her work punctuated by qualifiers from the outside, but Janet L. Norwood, BLS commissioner for nearly four years, calmly fields such criticism.

"Given the budget constraints under which we operate we do a pretty good job," she says.

That doesn't silence the critics, however. They still throw stones at the monthly jobless report. Although periodic refinements are made in how and what statistics are collected by the bureau, many of today's measurements of national unemployment were first adopted during the Great Depression.

In other words, the critics assail not the bureau's motivations or work habits; instead, they question the antiquity of the statistical categories and the lack of data brought in by shorthanded field offices.

To judge the validity of their complaints requires some knowledge of how and what statistics the bureau gathers each month.

Two sources are surveyed—employers and households.

From employers (a sample of firms that together employ more than 30 million nonagricultural wage and salary workers), the bureau receives completed mail questionnaires. Information covers number of workers employed, average weekly hours, average weekly

PHOTO: ANDREW SACKS—BLACK STAR





PHOTO: JAMES NACHTWEY—BLACK STAR

Changes in the labor force have strongly influenced unemployment figures. For example, half the adult women now work or seek work. Joblessness is particularly high among members of minorities —a growing part of the labor force.

earnings and such for the nation, states and metropolitan areas.

It is the household survey, however, from which the nation's monthly unemployment rate is determined. Information is collected by trained interviewers from a sample of some 60,000 households representing 629 areas in 1,148 counties and cities (the locations are in all 50 states and the District of Columbia).

Part of the sample is changed each month. The rotation plan provides for three fourths of the sample to be common from one month to the next. The interviewers determine how many of the households' occupants age 16 and over are employed or unemployed.

To the bureau, an employed person is one who worked during the payroll period that includes the 12th of the month or someone who was temporarily absent from his or her job because of illness, vacation, industrial dispute or the like. A person working more than one job is counted only in the job demanding the greatest number of hours.

Full-time workers are those employed 35 hours or more a week; part-time workers are those employed between 1 and 34 hours a week.

Job seekers are unemployed persons who made specific efforts to find a job sometime during the four weeks preceding the survey week. Someone who is laid off from a job is considered a job seeker and therefore classified as unemployed.

THEN THERE are "discouraged" workers. They are the individuals without jobs who have told interviewers that they have not tried to find work during the month preceding the survey. Because they have stopped looking, the bureau does not consider them part of the nation's labor force and does not count them among the unemployed. (The bureau does include them, however, in more detailed quarterly data on unemployment.)

Determining the monthly unemployment rate is simple arithmetic. The total of employed and unemployed comprises the nation's civilian labor force. The percentage of unemployed in that labor force becomes the nation's unemployment rate—the official unemployment rate, that is.

Doing a bit of its own arithmetic, the AFL-CIO sees the unemployment situation quite differently.

"The number of workers counted as officially unemployed by the bureau in the spring quarter of this year averaged 10.4 million," says AFL-CIO Legislative Director Ray Denison. "But an additional 1.5 million 'discouraged' had given up entirely on finding work. And of those employed workers, 5.7 million were forced into part-time schedules. Thus the total number suffering job loss and income loss is 17.6 million."

Of course, the AFL-CIO is measuring more than unemployed. By tossing in workers who have been relegated from full-time to part-time work, the labor organization is measuring economic hardship, too. (Again, these data are available, and published, by the bureau but are not figured into the official monthly unemployment rate.)

IT IS THAT subject—the relationship of bureau statistics on unemployment to the degree of economic hardship in the nation—over which the critics swarm.

They contend the bureau's monthly jobless-rate pronouncement tells much less now than it did back in the 1930s. In those days, economic hardship was defined in terms of the absence of a job.

"Many changes since the Depression have diminished the relevance of the unemployment rate as the basic yardstick of economic hardship," says Leonard A. Lecht, who directed a special project on employment for the Conference Board, a research organization. "For example, millions of people with full-time, full-year jobs continue to earn poverty incomes."

On the other hand, he points out, a series of buffers, such as unemployment compensation and food stamps, "have come to cushion the gap between the lack of a job and poverty."

Still another facet of today's society—transfer payments—gets short shrift in the bureau's monthly jobless rate. These are such payments as Social Security, welfare, government pensions—income received by millions in exchange for no current work.

In other words, a retired federal worker or a military officer may be enjoying a $20,000 annual pension, but he may be looking for work and therefore be counted among the unemployed.

Such disparities in economic hardship

do not filter through the raw unemployment rate, but they do exist in many American families. Of the 21.4 million Americans who experienced unemployment during 1980, for example, 3 out of 10 lived in families with incomes between $10,000 and $20,000, and 4 in every 10 lived in families earning $20,000 or more.

The purity of the unemployment rate figure also is diluted, say some economists, by the presence of married women and teen-agers in the labor market. The two groups come in and out of the labor market more frequently than adult males, the teen-agers because of school and the married women because of family responsibilities. As a result, they have higher unemployment rates, pushing up the overall rate.

Unemployment experts like Sar L. Levitan and Robert Taggart, economics professors at George Washington University, see a "hardship index" as providing a fuller picture of how much deprivation is caused by labor market conditions. This concept seeks to measure the effects of low earnings and unemployment on families.

Media reports on the unemployment rate don't delve into such details. Instead, the news summaries generally report today's unemployment rate and compare it with the rate of 40 or more years ago, implying that society is in the same fix today as it was during grandpa's day.

That the economy, and the American worker, is in a fix today, no one disputes. But no one, including BLS Commissioner Norwood, recommends accepting the monthly unemployment rate as the sole denominator.

"The overall unemployment rate is an important statistic," says Norwood, "but to understand what is really happening we need to find out who is working and who is not, who has earnings and who does not. We must learn what we can about the employment and income of others in the families with whom the unemployed live."

PHOTO: WAYNE PARTLOW



As have many federal agencies, the Bureau of Labor Statistics has undergone budget cuts, limiting Commissioner Janet L. Norwood's statistical studies.

This is more than an arcane problem, says Levitan. "Government policy, billions of dollars and media reporting are all riding on the unemployment rate."

So, to a large extent, is President Reagan's administration. Therefore it is not surprising to hear the President continually emphasize the high percentage of employed, not unemployed, Americans today.

UNEMPLOYMENT and employment rising at the same time? Not unusual. Says Levitan, "Focusing on the unemployment rate alone as the critical variable for government policy can obscure what is happening to the labor force."

In fact, some economists, such as Martin Lefkowitz, director of economic statistics and trends for the U.S. Chamber of Commerce, consider employment a more important indicator of the economy than unemployment. Lefkowitz says:

"The Bureau of Labor Statistics recently reported that the employment rate rose from 57.1 to 57.5 percent of the population while at the same time the unemployment rate in the nation continued to rise.

"Overemphasis on the unemployment rate results in overstatement of the problem, since when the economy begins to expand, the rate of employment expands.

"This expansion is usually accompanied by ever greater numbers of new persons entering the labor force. These numbers continue to push the unemployment rate up, since the economy cannot absorb people as fast as they enter the labor force."

The result, says Lefkowitz, is that "the unemployment number gives an appearance of a contracting economy when, in fact, the economy is expanding."

Such conclusions don't go undisputed, of course.

Working with the same figures, the AFL-CIO agrees that the population and therefore the labor force are expanding, but it says that this expansion is far more rapid than the increase in availability of jobs.

"The number of jobs has to grow about 1.5 million a year to keep up with this expanding labor force and to hold unemployment at the same rate," says an AFL-CIO spokesman. "And it isn't happening."

And so, as with nearly everything else these days, the monthly unemployment rate figure is called into question. It seems that it isn't telling anybody—the President, organized labor, business, the public—everything that is really happening. □

Vital Statistics of the Labor Market

	Monthly data for 1982		
	July	Aug.	Sept.
	Thousands of persons		
Civilian labor force	110,522	110,644	110,980
Employed	99,732	99,839	99,720
Unemployed	10,790	10,805	11,260
	Percent of labor force		
Unemployment rates:			
All workers	9.8	9.8	10.1
Adult men	8.8	8.9	9.6
Adult women	8.4	8.2	8.3
Teen-agers	24.1	24.0	23.7
White	8.7	8.6	9.0
Black	18.5	18.8	20.2
Hispanic origin	13.9	14.6	14.6
Full-time workers	9.5	9.6	10.1

Source: Bureau of Labor Statistics



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PHOTO: BOB DAY

Money from an unconventional source of loans for a small firm has helped Charles Sims' company grow. It now has 53 appliance-rental outlets.

More Lenders For Small Business

New sources of capital are opening up as the financial industry changes.

By Michael Thoryn

CONVENTIONAL LENDERS were unreceptive in 1974 when Charles D. Sims sought capital to expand his television-rental business in Houston. A business serving customers who preferred renting TVs to buying them was not considered sufficiently sound eight years ago, Sims recalls.

He finally found a lender not normally considered a source of small-business financing: the General Electric Credit Corporation.

Remco, Sims' company, had six outlets in 1974. Today it has 53 outlets that had total sales of $38 million last year, and it rents refrigerators, microwave ovens and other types of appliances, in addition to TV sets. Several banks now want its business, but Sims feels a sense of loyalty to General Electric Credit. "I guess I'll stick with them," he says.

Remco's financing experience proved to be a precursor of a national trend: Lenders that once did little or no business with small businesses increasingly recognize the advantages of financing them.

"The whole financing system is opening up to small business," says Irving Leveson, director of economic studies at the Hudson Institute.

And although banks remain the first choice of small businesses in search of capital, alternative sources becoming more popular include finance companies, venture capital companies and pension funds.

Leveson, who has studied the implications for small business of changes now under way in the financial services industry, says nonbank lenders are increasingly aware that smaller enterprises account for 38 percent of the gross national product and have good growth potential.

"Small business people should be aware of the changes in the financing marketplace," says Jerry Feigen, director of finance and tax policy at the advocacy office of the Small Business Administration. "They should start looking at unconventional loan sources."

The prospect of alternative means of financing is developing at a particularly opportune time. Finding capital has always been a difficult problem for small businesses, and it has been particularly difficult in an era of recession, high interest rates and record levels of business failures.

For many fledgling businesses, conventional sources of financing have included personal savings, loans from friends and relatives and such devices as delayed payments to suppliers. But financing problems don't go away once the business is established. Expansion often requires substantial sums, and a frequent choice of larger companies—selling stock—often isn't a viable option.

For those reasons, the increasing interest of nonbank lenders in small business is particularly significant, and there are also related developments within the banking field itself. One is the growing interest of larger banks in the capital needs of smaller firms.

Until recently, banks with assets over $1 billion did not vigorously pursue the loan business of smaller firms. E. Peter Gillette, Jr., chairman of Northwestern National Bank of Minneapolis, explains: "When a commercial lending department is structured along industry lines, there often is very little incentive for individual loan officers to focus on the lower end of the market."

But such large banks as Chase Manhattan and the Bank of New York have recently established special units to serve small businesses. One

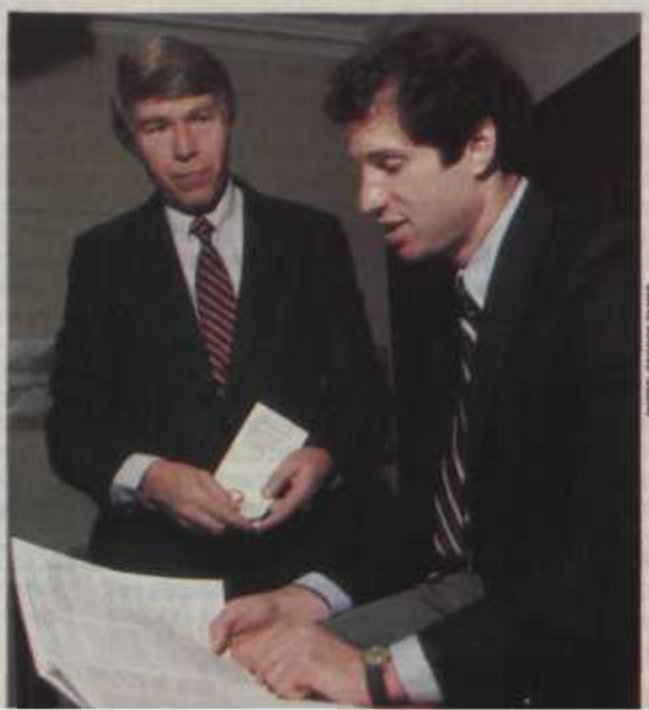


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Robert Laughlin, whose bank aids small firms, has testified in Washington on financing issues. Right: Rep. Ron Wyden (D-Ore.), small business committee member.

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hope is that small accounts will grow into big ones and that the added business eventually will offset the relative unprofitability of servicing these accounts in the initial stages.

Gillette says more large banks should assign key staff members to work exclusively with small business. "Such an approach increases a bank's capacity to provide real assistance and promotes a bond of mutual trust and respect," he says.

PHOTO: GABRIEL MOULIN STUDIO



Visa's Charles Russell: Money market funds get deposits small banks need.



Economist Irving Leveson: Small business is "increasingly attractive" to lenders.

Traditionally, the smaller the bank, the greater its involvement in small business loans. For the 12,000 U.S. banks with less than $100 million in deposits, small business has been an eagerly courted customer. A study by the Federal Reserve Bank of Atlanta shows that two thirds of smaller firms rely to some extent on local banks for secured and unsecured loans.

Small banks provide more than 75 percent of small business loans, the Independent Bankers Association of America reports. Association official James B. Benda says, "Community bankers won't leave the community when the bottom line changes."

Frank H. Mynard, executive vice president of Chicago's Michigan Avenue National Bank, which specializes in loans to small and medium-sized businesses, says some bankers are taking innovative approaches to small business borrowers.

Mynard, chairman of an American Bankers Association committee on small business credit, reports one bank that loaned money to a small business at a below-market 9 percent over seven years will receive 10 percent of the firm's profits during that time.

In Portland, Ore., owners of very small new businesses can turn to Stewardship Bank of Oregon, founded last

PHOTO: MOFFETT STUDIO



Banker Frank Mynard: Some banks are using innovative methods of financing.

year. The moving force behind Stewardship, Robert Laughlin, chairman of Western Food Equipment Company in Portland, was motivated in part by credit problems he encountered with a big bank. A loan called in on short notice made Laughlin scramble for a new credit source.

Stewardship has assets of about $6 million and a self-imposed goal of providing small business with start-up capital and capital for expansion. For example, Dan Ramberg, owner of a travel service, says he was turned down by five different Portland banks before Stewardship granted him a loan.

Kevin Cookingham tried two Portland banks and the Small Business Administration for money to start his specialty food store in downtown Portland. The banks wanted collateral, and the SBA said loan approval would take at least six months, Cookingham recalls.

"Stewardship Bank talked to me, and two days later they gave me a $6,000 loan," Cookingham says. He says Stewardship carefully checked his financial statement and profit-and-loss projection but did not require collateral. "Unlike other banks, they looked at the potential of the business—not whether I could pay off immediately," he says.

Although their small business expertise has given community bankers an edge in the small business field over larger banks, money market funds have had an edge over them in obtaining deposits the bankers need in order to make loans. The funds are "scooping up deposits from all over the country and investing the bulk of the assets in only a few money center banks, foreign banks and multinational corporations," says Charles T. Russell, president of Visa U.S.A., the nation's largest credit card company.

A FINANCIAL REFORM ACT passed early in October will change the equation. Banks and S&Ls were given a strong competitive weapon against uninsured money market funds—the right to offer money market accounts insured by the government for up to $100,000. Visa is already planning a money fund that would channel dollars into local communities and businesses by investing mainly in certificates of deposit of its member banks and thrifts.

Besides receiving a legislative remedy, banks are expanding in an area that used to be the province of such finance companies as General Electric Credit—making asset-based loans to businesses. In the past banks have based loans on profit-and-loss statements instead.

Heller Financial Services, which has been making asset-based loans to businesses for more than 50 years, notes that such financing often allows borrowers to secure more credit. Heller, with 68 offices nationwide, bases credit capacity on assets that include receivables, inventory and real estate.

Norman P. Blake, Jr., executive vice president, financing operations, of General Electric Credit, says that privately owned businesses underestimate their assets. Blake's firm, with more than $12 billion in outstanding loans and lease receivables, is a secured lender; like Heller, it requires that loans are secured by underlying assets, such as inventory or equipment, whether owned or leased. It does not limit loans to profitable firms. Blake says he is "a higher risk kind of guy." He adds, "There's no science to banking or finance. What you need is rigorous analysis of a company and a gut feeling that comes from experience."

Consumer finance companies are a fairly new capital source for small firms. Historically, consumer finance companies like industry giants Household International and Beneficial con-

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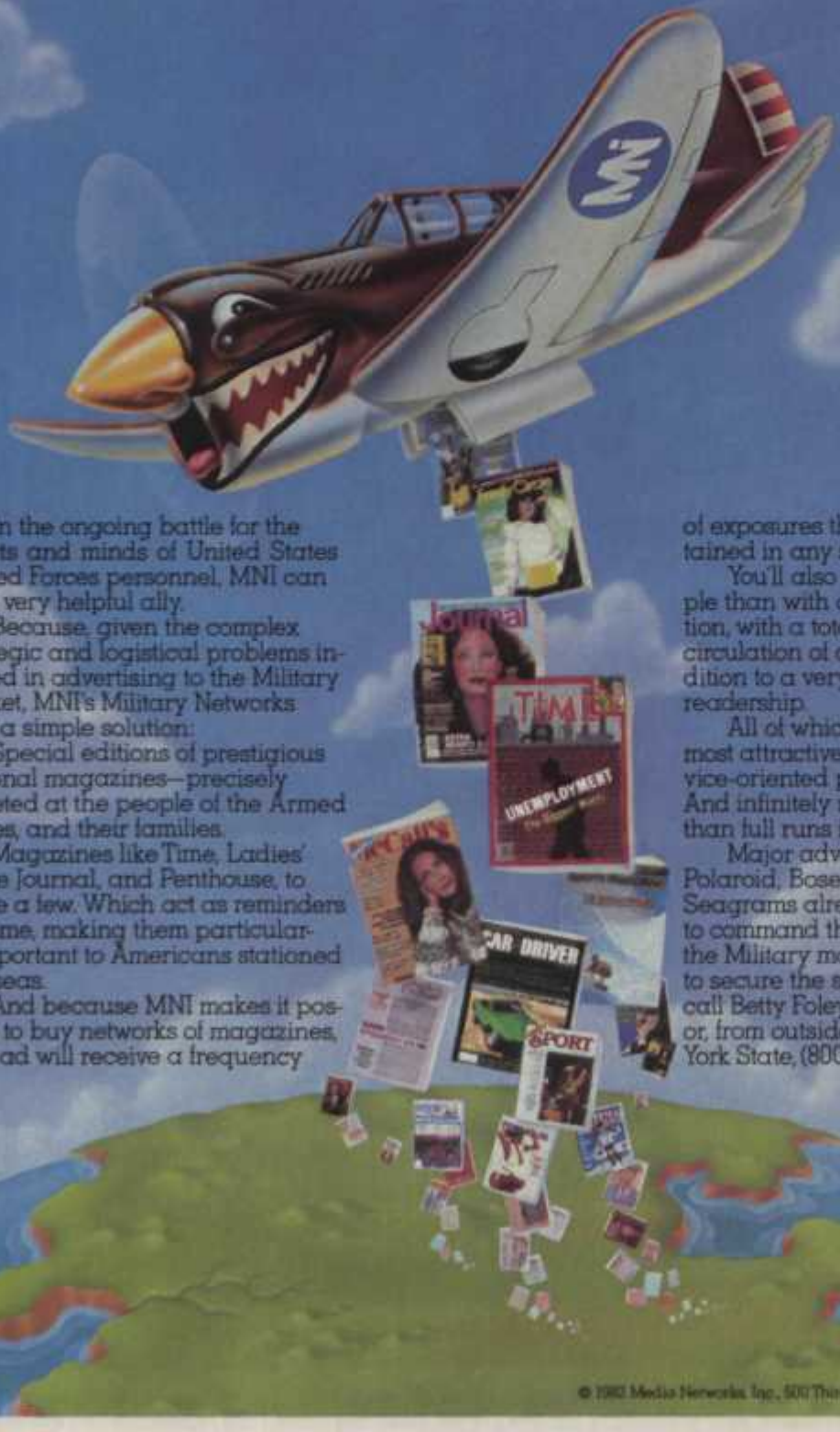
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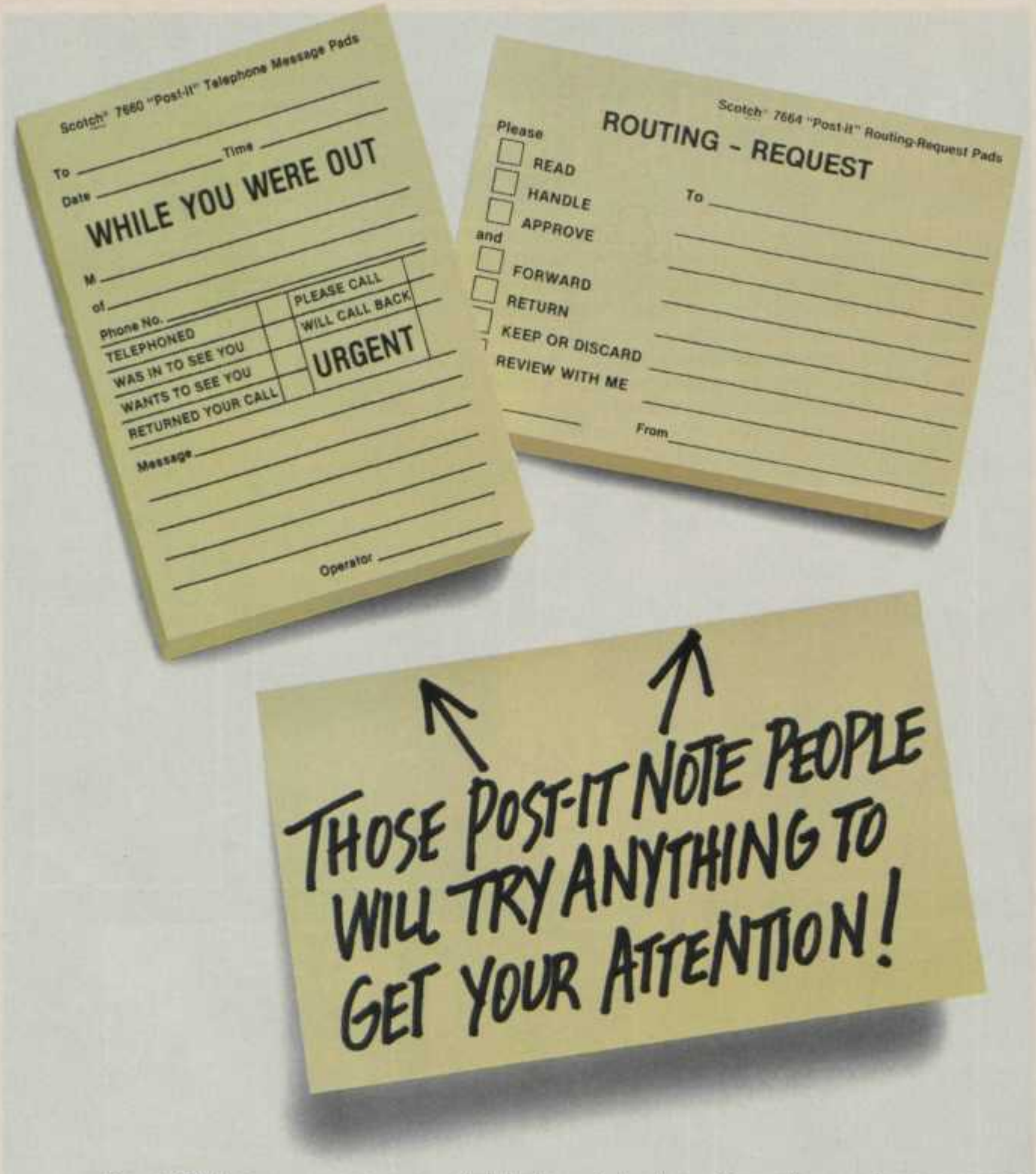




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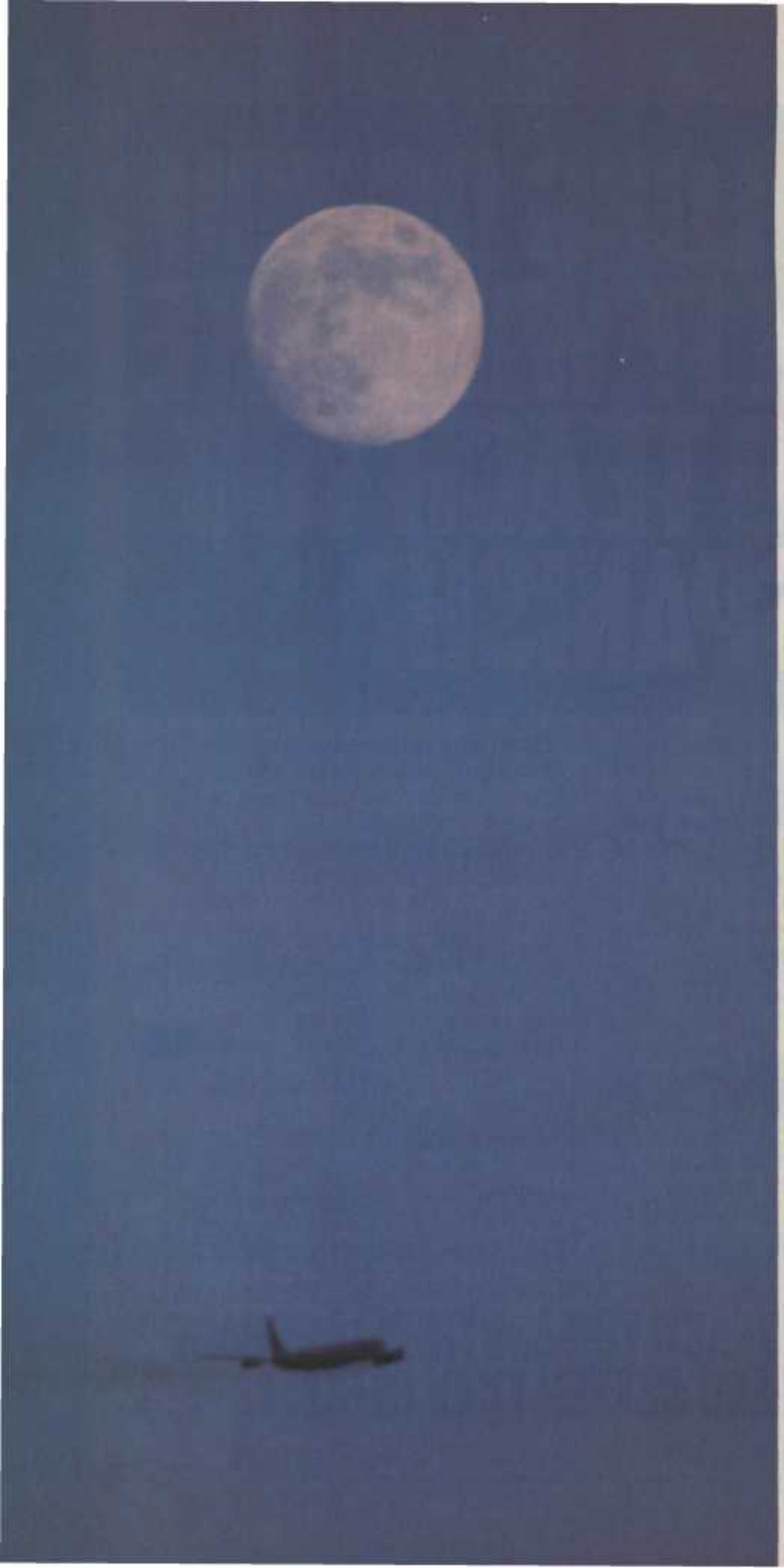
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Through the years, Pendleton blankets and robes came to be considered a standard of value among settlers and Indians throughout the West.

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We continue to use only pure, virgin wools, selected and graded by hand each shearing season.

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centrated on small, unsecured loans for under $5,000. But with default rates rising in a weak economy, the firms have diversified into second-mortgage loans and asset-based loans to small business. William R. Hobson, president of BA Business Credit, says the number of small businesses that applied at his firm for loans secured by the owners' homes rose 20 percent in the first half of 1982.

The reason for the upswing is the "unexpected duration and depth of the recession," Hobson says. He adds, "Tight credit and poor business conditions are driving many small businesses to the brink of insolvency."

Venture capital firms, which supply seed money in return for an equity interest, may be an important capital source for growing small businesses in the 1980s. The number of venture capital firms has doubled in the past two years.

"Last year alone, venture capitalists disbursed over $1.4 billion to developing businesses—many of which will play a significant role in the development of U.S. technology," states *Venture Capital Journal*, which monitors the industry. Pension funds, insurance companies, large corporations and endowments are starting to use venture capitalists to choose winning investments.

THERE IS EVEN some venture capital from the federal government. Operating under a 1958 act, the SBA licenses, regulates and provides capital to privately owned and operated SBICs—small business investment companies. About 46,000 firms have received $4 billion in SBIC financing since the program began. The current outstanding balance is about $1 billion.

The SBA also makes some loans to small firms without going through middlemen, and it guarantees a larger number of loans. About 22,000 guaranteed loans were made last year by certified lenders, most of them banks.

As part of federal budget-cutting, money available for guaranteed loans to small business has steeply declined since 1980—just the wrong approach, according to the Hudson Institute's Leveson. "SBA funding should operate countercyclically so that it is available during times of greatest need," he says.

Under the newly passed financial reform act, thrifts can soon make loans to small business, too. Formerly barred from doing so by government rules, they will be able to put a small percentage of their assets into such loans. In 1984 and thereafter the limit will be 10 percent.

"S&Ls have won the tools for a sounder [financial] future," says the U.S. League of Savings Associations.

Laughlin, the founder of Stewardship Bank, is slowly moving Western Food Equipment entirely away from institutional lenders. Western has a $750,000 bank credit line, too large for Stewardship to handle. About 30 individuals, many of them employes, have lent the firm about $300,000 at interest rates ranging from 14 to 16 percent; Western's real estate is the collateral. Laughlin hopes his ongoing "private placement program" can replace the bank line in roughly five years.

Remco's Sims, content with his nonbank financing and beginning a nationwide franchising program, believes that banks "will continue to avoid start-ups and speculative deals." But banks are becoming more flexible, and like their competitors they are searching out new loan prospects.

"Small business is an increasingly attractive market," Leveson, the economist, says. "Although the structure of the financial services industry will continue to shift, there will be many firms anxious to enter and expand in the small business financial market." □

How To Get a Loan

A banker specializing in small business loans says that too many applications for such loans are prepared poorly.

"All the small businessman really needs to do to get a loan, if he deserves one, is to be as good at applying for it as he is at selling whatever he makes or distributes," explains Theodore H. Silbert, chairman of Sterling National Bank in New York City.

Silbert says that fewer than 10 percent of the small business people who come to a bank asking for a substantial loan are adequately prepared. Many times, a small business owner doesn't even make an appointment.

"They expect to walk in off the street and get $50,000 to $500,000," Silbert says. "Bankers are busy and harassed. If the loan application doesn't put the basic information up front, they often don't have time to dig for it."

Silbert's suggestion: Have a professional accountant prepare a reliable financial statement and the loan application form.

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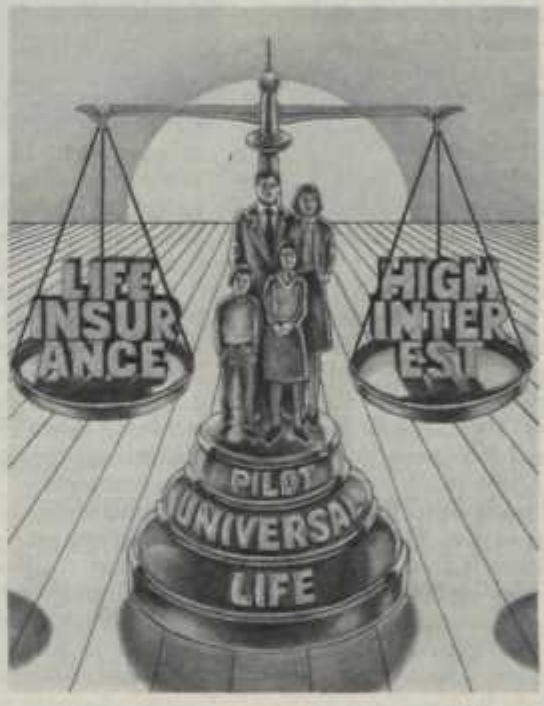
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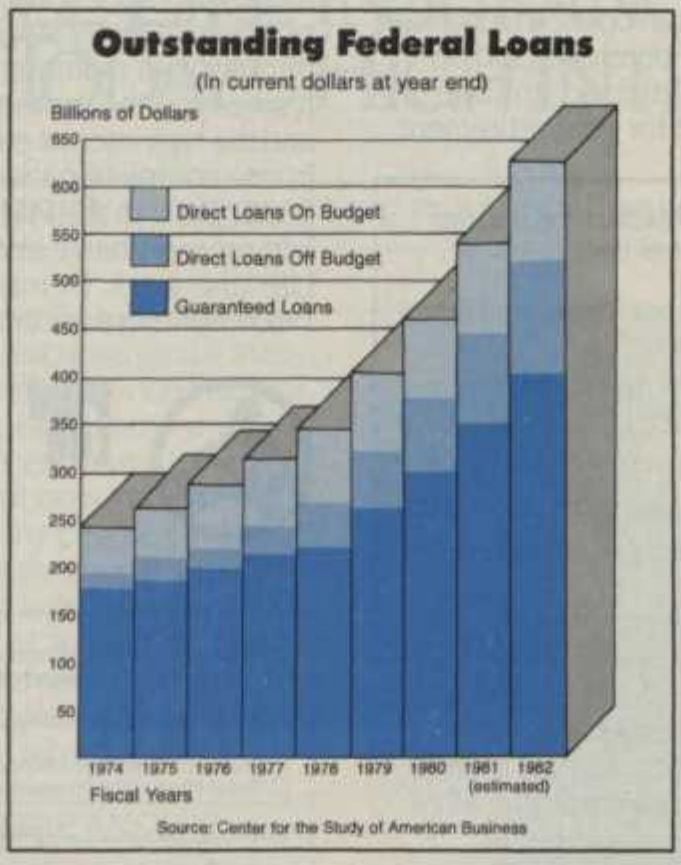
Where The Discredit Is Due?

Federal lending may be what really underlies high interest rates.

HIGH INTEREST RATES have been attributed to inflation, Federal Reserve policy and federal budget deficits. The real culprit, however, may be the 358 federal loan and loan guarantee programs, most of which are not reflected in the official deficit figures.

Federal credit has grown 27 percent a year since 1976. Direct federal spending has risen about 12 percent annually.

During fiscal 1980 the federal government and its sponsored enterprises, such as the Federal National Mortgage Association, made $148 billion in loans to various private and quasi-private entities and guaranteed another $69.8 billion in loans. After netting out repayments and double counting (for example, two federal agencies may guarantee the same loans), new lending and guarantee support was $79.9 billion. In fiscal 1981 it was $86.5 billion. The net lending total in each year was one third larger than the budget deficit.



According to a study made by Clifford M. Hardin and Arthur T. Denzau for the Center for the Study of American Business, St. Louis, outstanding federal loans and guarantees totaled an estimated $623.8 billion in fiscal 1982, which ended September 30. Less than one sixth of the total has shown up in federal budgets. This activity's effect on credit markets is a problem for business. Federal loans and guaranteed loans amounted to 11.9 percent of funds advanced in U.S. credit markets in fiscal 1977. By fiscal 1981 the figure had jumped to 21.2 percent. Add in funds the government borrowed to finance the on-the-record federal deficit for that year, and the total federal drain on available credit was 35 percent.

The increase in federal credit requirements has outpaced the growth of total domestic credit, which means the potential borrowers not participating in federal programs have had to compete with one another for pieces of a shrinking pie. Such competition tends to raise the price of anything, including money. In 1980, when the prime rate was in the 20 percent range, interest charged on federally aided credit ranged from zero for water resources projects to 14.5 percent for credit unions.

SOME OUTSIDE OBSERVERS are astounded at administrative and accounting practices used in federal credit programs. For example, a major reason for the drastic underreporting of federal credit activity in the unified budget is that on-budget loans are reported as a net figure, after subtraction of repayments, liquidation of collateral, write-offs and sales of loan assets to the Federal Financing Bank. Thus, new loans of $25.7 billion in fiscal 1980 are listed in the budget as $9.5 billion.

The Federal Financing Bank, lodged in the Treasury, buys agency debt issues, loan assets and guaranteed loans from other federal agencies. It replenishes its cash by borrowing from the public through the Treasury. Agencies that have sold their portfolios to the bank may take the cash they receive and make new loans. There is no limit to this process.

Delinquent debtors often find the federal government an understanding creditor because, according to the Office of Management and Budget, federal agencies would rather defer or reschedule a debt than write it off. Further, interest on delinquencies and defaults is assessed at the already low interest rate prevailing on the loan, rather than at penalty rates, and defaulters are seldom reported to credit bureaus.

When losses do occur, Hardin and Denzau point out, they "are accounted for in insurance or other reserve accounts with corresponding transfers to the lending budget. This transfer gives defaults the appearance of repayments in the loan accounts." What can be done about all this? Critics of present federal credit practices suggest these reforms:

- Include all federal credit activities in the congressional budget process. Bills to require this have been introduced in the Senate by Charles H. Percy (R-Ill.) and in the House by Ed Bethune (R-Ark.) and Norman Y. Mineta (D-Calif.).

Supporters have little hope that these bills will pass this session. Nevertheless, they won a partial victory when binding ceilings on all credit programs were included for the first time in the fiscal 1983 budget resolution.

- Eliminate credit programs that duplicate services now available in the private sector.
- Reduce the amount of interest subsidies, or use grants to aid those deemed worthy.
- Adopt accounting and collection procedures more closely resembling those used in the private sector. □

—Barry Crickmer



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Taking a Successful Flier

WILLIAM Wayne Adaska is one of a small group of entrepreneurs who are taking flying back to the days of Orville and Wilbur Wright and making money doing it.

Adaska's Rotec Engineering, of Duncanville, Tex., a Dallas suburb, manufactures ultralight aircraft, which are sometimes called powered hang gliders, but which aren't, according to their manufacturers.

Like a hang glider, an ultralight is a small, open craft with a wing made of aluminum tubing and covered with Dacron sailcloth. It is held together by myriads of wires, just like the Wrights' early aircraft.



PHOTO, ROTEC ENGINEERING

When Bill Adaska, who got started making engine and propeller units in his garage, designed and began producing his own ultralight planes, sales soared.

Unlike an ordinary hang glider, it is propeller-driven and has a tail, making maneuvering a comparative breeze. It also has a seat for the pilot and wheeled landing gear.

Adaska, 37, says the ultralight is "an airplane for the people," and he predicts that half of the sports flying in this country soon will be done by aficionados cruising in ultralights at 40 miles an hour and burning less than 2 gallons of fuel per hour.

Private flying, he says, is rapidly getting out of reach of the average consumer. But that consumer can buy an ultralight manufacturer's single-seater kit for around $4,000 and assemble it in 60 hours. Adaska's planes fold up and can be transported on top of the family sedan. They also can be equipped with skis and floats, and new two-seater models can be modified for crop dusting and other uses.

Their services cannot, however, be sold to others. That is one price for what Adaska calls "a superb piece of government justice"—a Federal Aviation Administration decision that imposed few restrictions on ultralights. You don't even need a license to fly one, as long as it weighs no more than 254 pounds. Rotec's No. 1 model, the Rally, weighs 216.

The Chicago-born Adaska became infatuated with flying while in college. He got a bachelor's degree in mechanical engineering from the University of Illinois in 1968, along with an FAA airplane mechanic's license and a private pilot's license.

Adaska's first job was with Bell Helicopter Corporation in Forth Worth, where he was a flight test engineer. In 1977, still in Forth Worth but now in charge of getting FAA certification for the French-built Aerospatiale helicopter, he first saw a hang glider powered by a go-cart engine and was struck with entrepreneurial fever.

In a matter of months, with a capitalization of $10,000—his own money—Bill Adaska formed Rotec Engineering and started producing engines and propellers for hang gliders in his garage. He was chairman, president, chief executive officer and, since there was only one hired employe, half of the work force.

"My wife was pregnant, we had just bought a new house and that first year I lost $20,000," he says. "But I learned something—you've got to sell your product for more than it costs you to make it."

CONDITIONS IMPROVED the second year and Adaska moved his business into a 900-square-foot plant. He was charging more, and his product was changing. He designed his first ultralight that year and soon was producing the craft.

But before production got under way, there was the testing. Adaska had several crashes. "I'd just pull myself up and go after the problem again," he says.

The problem was control. In a hang glider—from which, through the work of Adaska and other pioneers, the ultralight was evolving—the pilot is suspended in a harness and controls the craft by shifting his weight. Bill Adaska was convinced that if you could install conventional controls like those on light airplanes, anyone could fly an ultralight, and a fantastic market would be created. With a lot of design help from his friends at Bell and Aerospatiale and his own knowledge of aeronautics, he proceeded.

Like other ultralights, his version had a wing, an undercarriage with a seat and an engine and propeller. But it had something else—a conventional tail section with a rudder and an elevator. Spoilers on the wings provided lateral control. Instead of having to shift his body, the Rotec ultralight pilot had a control stick and rudder pedals. The craft flew like an airplane, and at the 1980 experimental aircraft show in Oshkosh, Wis., Rotec's three-axis-control ultralight got a lot of attention.

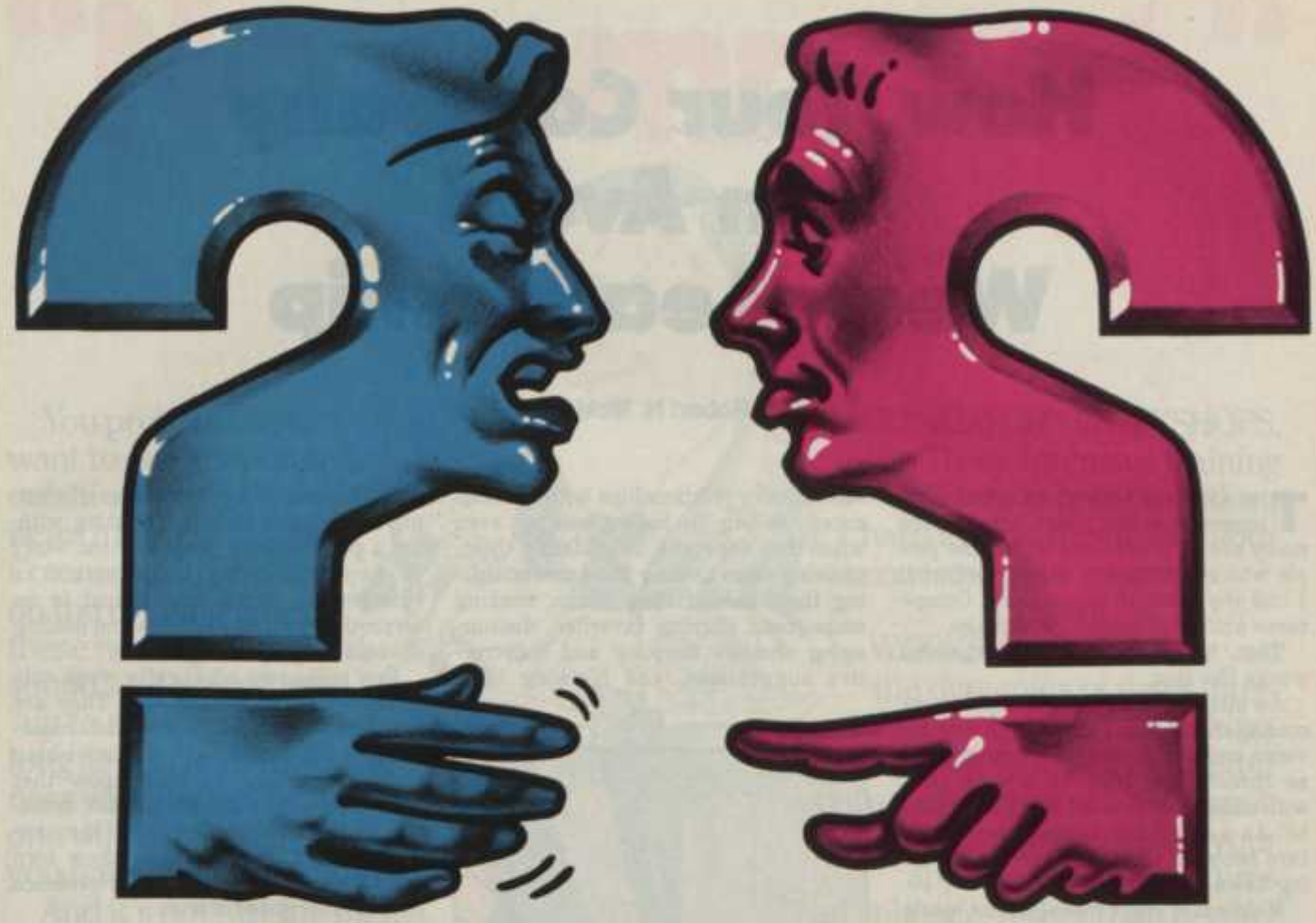
Today the firm occupies a 50,000-square-foot plant and has 100 employes. It builds about 3,000 ultralights annually. The world total of ultralights of all types is estimated at 25,000.

Adaska sells his product through a network of dealers, who generally provide some instruction. Dealers install training wheels on the front and tail "so that any way the craft lands, they're going to be on wheels," says Adaska.

He adds that "safety is the most important thing to us. For example, we have designed the undercarriage so that you can drop our ultralights on the ground from 50 feet and not hurt a thing. In fact, to prove how safe they are, I crashed one into a hill at 15 miles an hour, and I wasn't hurt. Of course, we don't recommend doing this—or any acrobatics, either."

Are any famous people flying Rotec ultralights? Says Bill Adaska: "Everyone who sends in a purchase order becomes famous to us." □

—Grover Heiman



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How Your Company Can Avoid Weak Leadership

By Robert N. McMurry

THE AVERAGE LIFE of American businesses is seven years. One reason many are so short-lived is that the people who run them are unaware of what I call the Law of Diminishing Competence and its potential for damage.

That fundamental of management works like this:

An insecure or indecisive straw boss, manager or chief executive officer views ambitious, assertive subordinates as threats and tries to replace them with subordinates even less secure than he. As a result the management structure becomes progressively weaker going down the line.

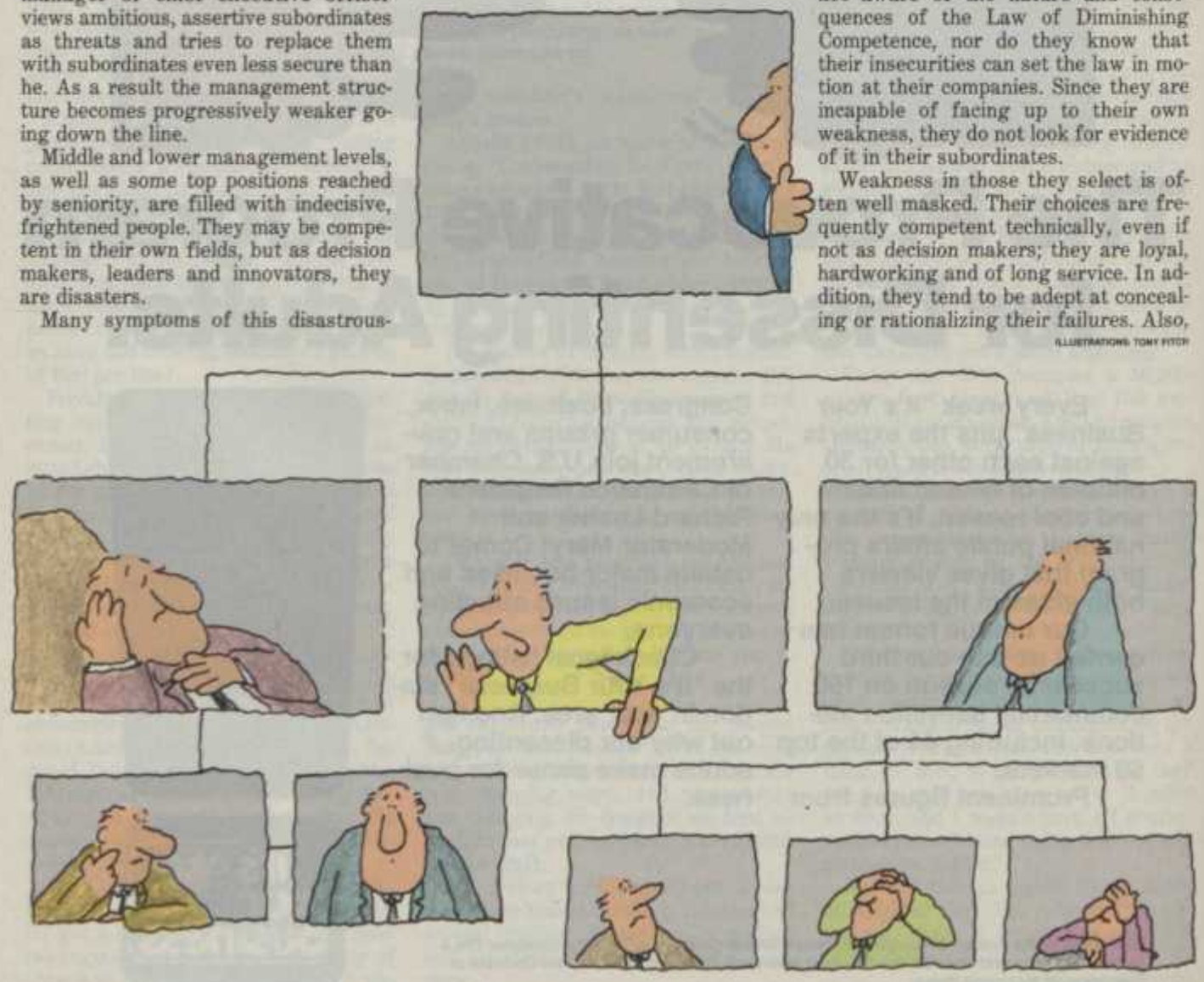
Middle and lower management levels, as well as some top positions reached by seniority, are filled with indecisive, frightened people. They may be competent in their own fields, but as decision makers, leaders and innovators, they are disasters.

Many symptoms of this disastrousness involve relationships with subordinates—failing to back them up even when they are right, intimidating them, praising them to their faces and criticizing them behind their backs, seeking scapegoats, playing favorites, discouraging creative thinking and constructive suggestions, and blocking their advancement. Other symptoms of executive weakness include operating without a plan, making promises that won't be kept, becoming disorganized in emergencies, being inconsistent in interpreting company policies and dealing obsequiously with superiors.

Few managers who prefer weak subordinates do so consciously. They are not aware of the nature and consequences of the Law of Diminishing Competence, nor do they know that their insecurities can set the law in motion at their companies. Since they are incapable of facing up to their own weakness, they do not look for evidence of it in their subordinates.

Weakness in those they select is often well masked. Their choices are frequently competent technically, even if not as decision makers; they are loyal, hardworking and of long service. In addition, they tend to be adept at concealing or rationalizing their failures. Also,

ILLUSTRATIONS: TONY FITCH



"No comment."



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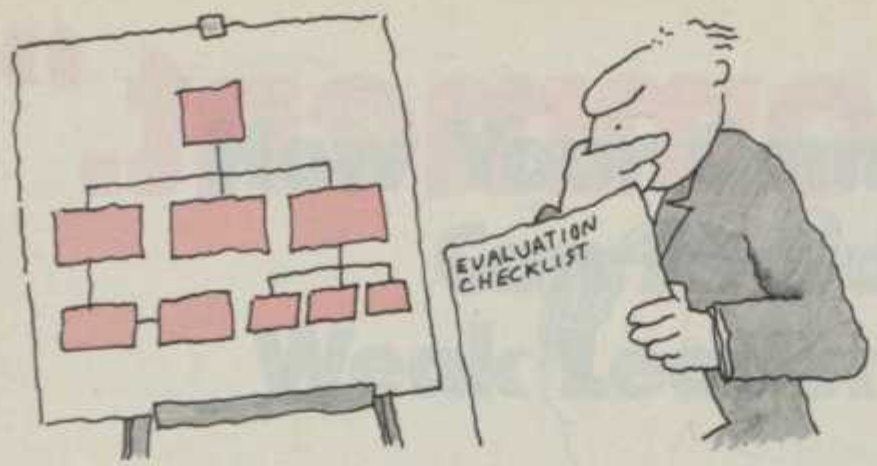
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they may be selected in their superiors' own images.

In many instances the chief determinants for advancement are, besides the candidate's technical expertise, his compatibility with his immediate superior—chemistry, the degree of congruence of their values—and his potential as a threat to the superior's security.

Therefore, the better the subordinate's qualifications, the less likely he is to be well regarded and to advance. Most companies depend on the superior's often biased judgment of the subordinate's competence. This can be costly to the well-qualified employe—and his employer.

ALMOST WITHOUT exception, an enterprise that is free from manifestations of the Law of Diminishing Competence has executives who are strong and decisive. They are not reluctant to fight for what they believe is right and make decisions that can put their jobs at risk. As a corollary, they do not want indecisive, sycophantic mediocrities on their staffs but welcome upwardly mobile subordinates.

Though the CEO of such a company may not be familiar with the Law of Diminishing Competence by name, he is aware of its manifestations and is prepared to eliminate them. He also needs the support of his board of directors, if he has one. Ideally, the board has formed a special supervisory oversight committee to help identify problems and to take corrective action.

The action should include a program to ensure that everyone in middle management has at least minimal leadership qualifications.

First, the executive should assess each incumbent's operational unit as measured by:

- Operating costs, in relation to budgets and projections, and profit performance.
- Quality standards, customer complaints and product rejections.
- Creative contributions.
- Performance against deadlines.
- Degree of labor peace or unrest.
- Competence of employes whom the middle manager favors compared to that of those he deprecates.
- Rate of personnel turnover and the competence of those leaving.
- Absenteeism and tardiness.

Next, the CEO or outside consultants should interview and appraise each incumbent. And then employes throughout the company should anonymously fill out questionnaires that give them a chance to indicate their needs and problems without fear of reprisal. (Sears, Roebuck has conducted such polls for many years.) The questionnaires reveal, among other things, how subordinates regard their superiors and stress areas of strength and weakness.

To what extent are the superiors seen as secure, well-organized, knowledgeable and skilled? Believable and trustworthy? Concerned with their subordinates' welfare? Capable of making decisions without regard to job security? Willing to accept responsibility for their mistakes?

On the basis of all that, the CEO and the board's committee, if there is one, can decide what action to take in each superior's case. Each candidate for promotion is evaluated to fall into one of these categories:

- Well suited to line responsibilities; eligible to be promoted.
- Adequately suited to his job; should be retained where he is.
- Marginally qualified; should be moved into a staff, non-decision-making assignment.
- Unqualified.

Eliminating the effects of the Law of Diminishing Competence will not solve all of a company's management problems. A strong CEO must design and implement programs to improve methods of initial selection and training, ensure equitable compensation, provide clear channels of communication and offer outlets for employe grievances.

DO STRONG LEADERSHIP and the other corrective steps improve employe morale? Two measures of morale are the rate of employe turnover and the degree to which employes are unionized. Chronic labor trouble is always a sign of weak management. Witness what happened at two companies where corrective action was taken. A manufacturer that has 115 blue- and white-collar employes in its principal plant and does roughly $100 million per year in volume has no union despite several organizing drives. The company is in a community where employers average 15 to 25 percent annual turnover, but its turnover rate is 3 percent.

A savings and loan association with 300 employes—not unionized—has a turnover rate that has not exceeded 7 percent for several years. Turnover at other savings and loans in its state averages 27 percent.

At both those organizations, the weak no longer lead the weaker. □

To order reprints of this article, see page 69.



ROBERT N. MCMURRY *is a Chicago-based management expert. A variety of companies, large and small, have consulted him on personnel problems for more than 35 years.*

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NO ☐ At 65 most individuals have been working well over 40 years and deserve an opportunity for leisure in their later years. Requiring them to continue to work in order to get Social Security benefits could affect their physical and mental health and would delay promotion of younger workers. Also, employers would be severely restricted in making personnel changes.

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VERDICT: Ease Job Rules on Teens

Restrictions on employment of 14- and 15-year-olds should be relaxed to offer them more job opportunities in nonhazardous fields, NATION'S BUSINESS readers have declared forcefully in response to a survey on that question.

The "Where I Stand" feature in the September issue asked whether readers favor or oppose a Labor Department plan to open more jobs to youngsters, while maintaining safeguards to prevent abuses. More than 70 percent of those replying support the plan. An affirmative argument is that easing the rules would give the younger teen-agers valuable experience in a safe atmosphere. A negative argument is that it would be the first step toward a massive breach in child-labor laws.

Controversy touched off by the Labor Department plan became so intense that the proposal has been temporarily withdrawn. The results of the NATION'S BUSINESS poll will be forwarded to key federal officials involved in the debate.

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A Special Touch With The Handicapped

Three middle-aged women in San Francisco boarded an airline flight for Washington a few months ago and got to know the nation's capital in a way they never had thought possible.

All three were blind. But they were able to visit galleries and government buildings, where they literally felt their way among statues and exhibits marked in Braille. They explored the city independently, on a tour especially arranged for them by the Ticket Counter.

The Ticket Counter is a Bethesda, Md., travel agency that handles routine trips for most of its clients but also specializes in helping handicapped Americans and foreigners tour anywhere in the nation.

PHOTO: ROBERT BURGESS



Helena Koenig, shown here with the Superphone that enables her to talk with deaf clients, has a special reason for helping the handicapped travel independently.

Most often in the travel industry the sightless, deaf and wheelchair-bound are booked in isolated groups by travel wholesalers, but the Ticket Counter prepares personal, individual tours.

"Handicapped people don't want to be separated from the mainstream," says Ticket Counter owner Helena Koenig. "We set up trips for them so that they don't have to be treated differently from anyone else."

Koenig's father, paralyzed from the waist down by a childhood disease, led a vigorous life on crutches and in heavy leg braces, lugging around weighty canvas bag samples as a salesman until 30 years ago, when he established a travel agency in Englewood, N.J. Young Helena, fresh out of college with a business administration degree, helped set up the business but soon "retired" to get married and raise a family.

When she re-entered the business world 12 years ago, it was as a travel agent, operating by telephone from her home. Influenced by her late father's determination to lead an active life (he had run unsuccessfully for mayor of Englewood, handing out cards that said, "I don't want to be pitied, I want to be mayor"), Koenig has always maintained a special interest in the handicapped.

"Many travel agents don't want to get involved with the handicapped," she says. "But 23.3 million adults in this country are handicapped, and millions of them are capable of independent travel if they can get the right kind of help."

Early this year Koenig moved her growing business from her home to a suburban office building, where she manages several employes and has a Superphone which enables her to talk with the deaf.

About 10 percent of the Ticket Counter's business is devoted to setting up travel for the handicapped, and most of those customers are unable to hear.

Deaf people have their own national telephone directory, in which the Ticket Counter is one of seven travel agencies listed and the only one in the mid-Atlantic region. The Superphone and other teletype phones for the hearing-impaired allow users to hook up their telephone receivers to a device so that they can type words on a keyboard. The words show up on a computer screen at the other end of the conversation.

One of the most touching moments of Koenig's career came soon after the special phone had been installed and she had completed travel arrangements with a client at the other end of the line. These words came across her screen: "Thank you for making me independent."

Private Protection For the Government

The government guards you see patrolling the Philadelphia Navy Yard, protecting nuclear secrets at Oak Ridge, Tenn., and safeguarding the treasured U.S. Constitution and Declaration of Independence at the National Archives in Washington aren't government guards at all. They are the "private militia" of Randolph D. Brock, 39, a onetime U.S. Army captain who heads Brock International Security Corporation, of Middlebury, Vt.

Brock has replaced U.S. Marines at the Philadelphia Navy Yard—Marines had guarded the installation since the Revolutionary War—with 20 of his uniformed finest as part of a federal government experiment to save money by replacing its more costly guard units with guards from the private sector.

Not only does the substitution of his company's employes for Marines free military men for other duties, Brock says, but "when various fringe costs are figured in—training, pensions and so forth—the government saves money despite the company's profit." The saving is even greater, he says, when company guards substitute for civilian federal workers.

Brock's company has grown explosively, and such savings have been a major reason.

After serving in Vietnam as a military police officer, Brock obtained a master's degree in history from Yale University and set out in 1970 to form a one-man private-eye service in Middlebury. Brock International now has more than 700 employes. Its clients include several major corporations as well as the government.

Because of today's higher unemployment rates, Brock says, it has become easier to find highly capable, well-educated security officers. "Many," he explains, "are 20-year military veterans in the prime of life."

PHOTO: BROCK INTERNATIONAL



Randolph Brock's men guard treasures of the nation while saving taxpayers money.

When Brock's firm won the guard contract at Oak Ridge, the General Accounting Office complained that the $10,000 starting salary established for private guards there by the Department of Energy was too low to attract qualified job applicants. But 800 applicants showed up for 33 openings.

Most private guard outfits pay their recruits a minimum wage—$134 a week and no added benefits. At Brock International, compensation is higher. To get the best applicants and cut down on turnover, it starts its guards at an average of $210 a week, with a package of long-term extra benefits.

Brock also attracts above-average guards by spurning what he describes as "minimal work assignments—such as guard jobs in fast-food restaurants."

Before they're hired, Brock's guards must pass rigorous examinations that test their honesty and stability.

Another major phase of his company's work is undercover white-collar crime detection.

"I'm constantly surprised at the ingenuity of white-collar criminals," Brock says. He cites the case of a firm that called him in to find out why a subsidiary was losing so much money. It turned out that the head of the subsidiary and his top executives were stealing goods from the subsidiary and selling the items at cut-rate through a side company they had secretly set up.

"That was a lucrative plan while it lasted," Brock says. "Schemes like that have become almost common." And, he doesn't have to add, they keep his business booming.

Young Innovator Takes Outdoor Signs Indoors

Andrew Pakula, 24, has taken a new approach to an old idea, and as a result a different type of advertising is about to make its debut.

Decades ago, people in New York's Times Square could see printed news moving electronically around the outside of a building, while cartoon characters cavorted nearby in a huge, animated advertising sign.

Pakula is taking the concept indoors. He has devised signs 10 feet wide and 3 feet high that will advertise products in vivid color while carrying a constant flow of news provided by United Press International.

The fact that Pakula has gone into advertising must have surprised many who knew him in his not-so-distant boyhood. His Suffern, N.Y., family has been in the retail bakery business for eight generations.

Also, Pakula hoped to play professional baseball, as his father did. The senior Pakula was a catcher in the old New York Giants farm system before going into the bakery business.

However, Pakula majored in business administration at the University of Hartford and took such esoteric courses as management theory and organizational behavior. By the time he graduated, he had veered toward advertising and went to work for a major New York advertising firm.

That led him to look for a new way to economically reach a mobile and high-income audience, and the answer clicked when he observed many people watching a modern-day, multicolored and animated electronic sign above Times Square. Pakula decided to develop smaller versions of the giant sign.

He formed his own company, Spectrumedia Network, in December, 1980, and a few months ago convinced authorities to permit installation of up to 53 of his signs at strategic points in New York's Kennedy and LaGuardia airports by January 1.

Spectrumedia has signed up American Express, Dreyfus Liquid Assets and Hertz, among others, to advertise their wares to captive audiences in waiting rooms and at ticket counters.

Viewers will see the ads displayed in splashy color as they read a flow of capsuled news and market reports.

Pakula's sign idea intrigued A.G. Becker, a venture capital firm. Out of 1,300 solicitations for investments during the past year, Becker selected Spectrumedia as one of 10 companies in which to invest. That means that in coming months Pakula will be approaching airport authorities across the nation with his idea.

Meanwhile, Pakula has done something any recent college graduate might do when he finds himself running a successful new business. He has hired one of his professors to work for him. □

PHOTO: SOFTNESS GROUP



Andrew Pakula has come up with a new technique for advertisers who want to get their message across in airports: a combination of eye-catching messages and news.

Why Some Will Buy Now, Not Later

By Samuel H. Murray

Here is one motive for buying that needed business equipment this month or next, rather than later. As a result of the latest tax increase legislation, total depreciation deductions for equipment purchased in 1983 and thereafter will be smaller.

The depreciation basis—generally the amount paid for the item—will be reduced by half of the investment tax credit claimed. Thus, if a piece of machinery costs $100,000, the taxpayer can claim an ITC of $10,000, but the basis will be only $95,000, resulting in an ultimate loss of $5,000 in tax deductions.

There will be a similar reduction in basis for any energy credits and rehabilitation credits claimed.

In lieu of reducing the basis by half of these credits, the taxpayer can elect to reduce the credits themselves by two percentage points. In other words, the taxpayer can claim an investment tax credit of 8 instead of 10 percent.

There will be another investment tax credit cutback, too—in the ITC's ceiling. As of now, an ITC offsets income tax dollar for dollar up to the first $25,000 of tax liability and 90 percent above that. Starting next year, the latter figure will be 85 percent.

Higher Taxes on Buildings

After-tax profits on depreciable corporation-owned buildings will start shrinking next year. More of the profits will be taxed as ordinary income instead of at the lower capital gains rate.

Now, when a building is sold for more than the adjusted basis—the original cost minus depreciation deducted on tax returns—most of the proceeds generally are taxable as capital gains. The amount by which depreciation deducted at an accelerated rate exceeds depreciation that is deductible uniformly, year by year—the straight-line rate—is all that is reportable as ordinary income. However, in 1983 the profit on the sale that is treated as ordinary income will be increased by 15 percent of the amount that would have been ordinary income if the property had been sold subject to the rules for equipment sales. When equipment is sold, all of the difference between the original cost basis and the adjusted basis is reported as ordinary income.

Increased Health Premiums

As of Jan. 1, 1983, if an employer provides group health insurance for his employes, he must give the same coverage to any in the 65-through-69 age class that he provides for all others.

Since eligibility for Medicare begins at age 65, employes who work beyond normal retirement age usually get secondary coverage now from group insurance; only gaps in Medicare benefits are covered for them.

To lessen the drain on Medicare, Congress is forcing employers who maintain group health plans to provide primary coverage to older employes, with Medicare merely filling in the gaps, if any. (Employes 70 and over, not now covered by the Age Discrimination in Employment Act, are not affected.)

Result: Premiums will rise.

In another development, many employes who contribute to group health plans and do not have whopping medical bills can expect to lose a tax break next year. Only medical expenses in excess of 5 percent of adjusted gross income will be deductible on individual tax returns—up from 3 percent this year. And medical insurance premiums will no longer be fully deductible up to $150 but will be lumped with other medical expenses subject to the 5 percent floor.

Greater Pension Costs

Tax rules for retirement plans have been changed in a number of ways designed to make the system fairer to lower-paid participants and to put noncorporate plans on parity with corporate plans.

Result: new burdens for employers, not so much in the additional contributions required as in the administrative cost of complying with the changes.

Every plan will have to be amended in a lengthy process requiring services of experts. Also, with a view to improving tax compliance by retirees in reporting their pensions and other retirement payouts, plan administrators must keep more detailed records, on pain of stiff penalties.

In addition, beginning January 1, income tax must be withheld on pension payments, whether they are periodic or lump-sum, unless the retiree chooses not to have the tax withheld. The plan administrator is responsible for this withholding unless he notifies a third party payor of the duty to withhold.

Employers must notify each retiree of intent to withhold and of the retiree's option to elect out. Furthermore, retirees must be notified yearly of their right to elect out or to revoke such a decision if already made. The Internal Revenue Service may grant employers extensions of the starting date for withholding, but the date cannot be postponed beyond July 1.

Extra Burden for Small Firms

Beginning in 1984 many small businesses that maintain qualified retirement plans may have to make larger contributions to their plans without any increase in benefits for higher-paid employes, who usually include the firms' owners. As a trade-off for placing noncorporate plans on parity with corporate plans, Congress imposed additional restrictions on what it termed "top-heavy" plans—those in which more than 60 percent of benefits go to "key employes."

Plans in this category must provide that participants' benefits be 100 percent nonforfeitable after three years—or after six if there is 20 percent vesting annually starting with the second year.

This forfeiture protection is greater than that required for plans that are not "top-heavy." Furthermore, minimum benefits may have to be provided for the firm's lower-paid employes. □

Note: For Your Tax File *is an information service for readers. See tax and legal advisers for guidance on all specific cases.*

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An Ancient Art Scores a Bull's-Eye

By John Costello

JIM PECKHAM, JR., enjoys his hobby—and loves talking about it.

"Asking me about archery," he says, "is like asking the Ancient Mariner: 'How was the trip?' " As English lit majors know, it took poet Samuel Taylor Coleridge more than 140 stanzas to answer that question in *The Rime of the Ancient Mariner.*

Peckham, 51, is a target archer, which makes him a rather rare bird. In the United States there are only about 10,000 of them, the National Archery Association estimates.



PHOTO: BETTMANN ARCHIVE

He started out as a field archer—a bowman who moves from point to point, aiming arrows at target after target, in contrast to a target archer, who stays in the same place. "Then," says Peckham, an executive with A.C. Nielsen Com-

The bowman at left is Assyrian King Assurbanipal (circa 669 B.C.). The one below is Chicago businessman Jim Peckham, whose hobby is target archery.



PHOTO: MILTON AND JOAN MANN—CAMERAMANN INTERNATIONAL

pany in Chicago, "I went to a target archery tournament. And I just enjoyed it. To me, the challenge seemed much greater."

What made it such a delight? Did he pierce the bull's-eye with shaft after shaft? Did his shooting bring the crowd to its feet, cheering?

"Hardly," he says. "Archery is not a spectator sport. It's hard to figure out what's going on. You're shooting at targets as far away as 90 meters. Spectators would be another 15 meters or so away.

"Most archers don't miss the target. So it's a question of whether they hit a seven ring, an eight or a nine. Even with binoculars, it's hard to tell who's shooting what."

In addition, his debut was nothing to shout about.

"I'd been a field archer for about two years," he says. "Then I got this notice—it was in 1973—about an archery tournament in Indiana, the Brown County Open. Gee, I thought, that sounds like fun."

With Robin Hood and his merry men, Peckham would have fit in just swell. At the tournament, he was like a kazoo player in a string quartet.

"I had on a green sports shirt and green slacks," he says, "and my three sons had on dungarees. We stuck out like sore thumbs. We were the only people there who weren't dressed in white. But nobody said a word. Archers are friendly people."



PHOTO: TIM WARK—DAMHOTO

This bowhunter's quarry, in Clearfield County, Pa., is deer. An arrow's speed can be faster than 150 miles an hour.

HIS FIRST TOURNAMENT was an artistic flop as well as a sartorial disaster. "We shot a FITA Olympic round. [The Fédération Internationale de Tir à l'Arc sets Olympic archery rules.] That's six sets of arrows from distances of 30, 50, 70 and 90 meters. I had never shot 90 meters in my life. I wasn't even able to reach the target very well. So I struggled through the tournament. But the people were so nice, I decided to come back the next year. And I have every year since."

Peckham now uses a stronger, 68-inch bow with a 43-pound pull. He shoots well enough to compete respectably in national tournaments.

"What's the most fun about archery," he says, "is the pleasure of trying to control the arrow and making it go where you want it to go. Once I started shooting bows, I realized that it was something I had always wanted to do."

Archery is as old as the Stone Age.

The John Smiths of 50,000 years ago had bows and arrows, the archaeologists tell us. A cave painting in Altamira, Spain, perhaps 30,000 years old, depicts a hunting scene—bowmen bagging deer with what resemble English longbows. Early man used the bow almost everywhere. (An exception was Australia—no reflection, of course, on aborigines there. Who else had the boomerang?)

Down through the centuries the bow played an important role not only in man's quest for food but in his conflicts with his fellows. The skill of the English man-at-arms with his yew bow and yard-long arrows was legendary in the Middle Ages. English kings encouraged the art. In 1342, Edward III ordered that "holiday leisure time should be spent in the noble recreation of archery and not in useless sport."

But Eastern archers were the world's best. During the Crusades, Turkish horse archers outclassed the English. Their short, heavily reflexed bows could drive an arrow well over half a mile.

Eventually, the martial art became solely a sport. America's first archery organization, the now-defunct United Bowmen, made its debut in Philadelphia in 1828. By 1879 the growing hobby had a National Archery Association, which now is for target archers only. In 1939 field archers spun off into the National Field Archery Association. Bowhunters formed their own society in 1963.

Today there are more than 2 million archers in the United States, the Federal Fish and Wildlife Service reports. It says they spend about $105 million annually on bows and arrows alone.

Most archers use either a recurve or a compound bow. The first resembles a weapon the Assyrians used 3,000 years ago—bent away from the shooter at both ends. The second is an odd-looking combination of pulleys and cables that would puzzle even William Tell. But it's powerful and easy to draw. Neither is really expensive. A recurve or compound bow costs $50 to $400, unless the archer wants a deluxe, custom-built model. Arrows go for $10 to $70 a dozen. Another $125 buys a bowsight, two stabilizers, a quiver, an arm guard and gloves. Bows work the same way in our time as they did in Robin Hood's.

The National Archery Association explains: "Bows store energy. As the archer bends the bow, energy from his back muscles is stored in

Energy from the archer's back muscles, stored in the bow, is shifted to the arrow when the bowstring is released.



PHOTO: ANTHONY HOWARTH—WOODFIN CAMP & ASSOCIATES

the bow. When the bowstring is released, this stored energy is transferred to the arrow."

There is a lot of stored energy—enough to make the arrow fly faster than 150 miles an hour or strike with enough force, at 20 or 30 yards, to bring down a moose or grizzly.

IT'S DUSK IN the Canadian woods near White River, Ontario. You're starting to hear all those funny, nighttime sounds—harmless, perhaps, but threatening to a city-dweller's ears. Maybe there is a blood-curdling: WHO, WHO! Or some ominous rustling in the bushes.

You're up in a tree, a mere 12 feet above a smelly, 350-pound black bear that doesn't look like it likes you. There's nothing but a thin wooden shooting stand between you and a critter that can climb like a squirrel.

Would you be a little apprehensive? Roberta Byerly wasn't. She was scared stiff.

"My knees were shaking so badly," she says, "that I was afraid the bear would hear them. But as I raised my bow, my body responded and I stopped shaking instantly." She let fly and brought bruin down with a single arrow from her 52-pound-pull compound bow. Her quarry was big enough to gain her a kind of archer's instant immortality. The bear goes into the records for big game bagged by hunters armed only with bow and arrow.

It was Byerly's second black bear. She had taken her first three years earlier, in the summer of 1979. "That was only six months after I had ever held a bow in my hand," she says.

Byerly, vice president of Steve Byerly Masonry, Columbus, Ohio, learned archery from her husband, Steve. "At first I was a little squeamish about hunting," she admits, "but no more. In Canada, where my husband and I hunt bears, they're looked on as varmints. Both my bears were long in the tooth and not likely, we were told, to survive the coming winter."

If archers, like all Gaul, were divided into three parts—field archers, target archers and bowhunters—she would belong to the biggest tribe. There are 2,015,157 bowhunters, to be exact, the Fish and Wildlife Service says. Field archers are in a distant second place—there are perhaps 40,000 of them. The National Field Archery Association has 15,000 members.

This year Byerly is the women's Ohio Bowhunters Association champion. She won the title by scoring 510 points out of a possible 600 in shooting at big and small game figures, lifelike but made of polystyrene.

"Thirty targets," she explains, "with one arrow for each."

She adds that she likes shooting at targets, "but I enjoy hunting more."

Apart from making your knees shake, your hands tremble and adrenaline race through your veins, what's so swell about it?

"It's a total physical, mental and emotional experience," she says. "And when you go camping out in the woods, as we do, there's that great luxury—no phones ringing. Also, my husband and I like the great outdoors. So if you don't come back with trophies, you always come back with memories."



PHOTO NATIONAL ARCHERY ASSOCIATION



PHOTO BEAR ARCHERY

Archery gets many young recruits. Above: Junior Olympians in Colorado. Below: an archery set designed for youngsters.

Somewhere in the high Sierras, there's a careless, nearsighted hunter—or maybe just a rotten shot—who turned Roland Haggard, of La Verne, Calif., into a heck of an archer.

"A friend and I were hunting deer near Convict Lake, about 9,000 feet up in the mountains," Haggard explains. "Suddenly my friend said: 'Hey, somebody's shooting at us.' I told him, 'Oh, no, they wouldn't do that.' Then a bullet kicked up the dirt at my feet and another whizzed right by my ear. Right then and there, we got going. We hiked back to our car and drove home. I like the outdoors. I like camping and backpacking. But I decided there were other things to do than get shot at.

"So I took up bowhunting. Bowhunters have a different open season, and they have to be very close to a deer or elk—only 20 to 50 yards away—to get a decent shot. At that distance, it's hard to mistake a man for a buck."

Later, when Haggard bought a bow, a salesman introduced him to field competition.

"Now," he says, "I'm into all aspects of archery—target, field and hunting—as many archers are." This year he placed 10th in the national field archery tournament held at Darrington, Wash., beating out almost 500 other competitors.

"Field archery is like golf," he explains. "Instead of 18 holes, you have 28 targets, but they're laid out like a golf course. They're anywhere from 20 feet to 80 yards from the stake where you stand and shoot. Unlike bowhunter competitions, the distance to the target is marked. You shoot four arrows at each target. A perfect score would be 560, or 20 per target."

In the national tournament, Haggard, 52, a regional merchandise manager for K-Mart, had a five-day average of 536.

"It was very much timber country—a lot of hemlocks, very dense and dark," he says. "I was probably shooting 10 to 15 points below what I normally shoot, but everyone else was having the same problem."

Sound dull? Not to Haggard.

"It's a very competitive sport," he says, "and I'm a very competitive person." □

Why the Strike Should Be Out

THROUGHOUT its history, organized labor in this country has considered the strike its ultimate weapon. Its message has been clear-cut: Meet our demands or go bankrupt.

Strike leaders have sought public support by casting the work stoppage in terms of class conflict. They have portrayed the picket-line marchers at any one plant as representatives of all workers in their never-ending struggle with "the bosses."

That portrayal was never true, but changing conditions have made its falsity increasingly obvious. The American market system has become so complex that a union attack on one sector affects many others and eventually threatens the entire system—including, of course, other workers.

Transportation strikes, for example, can make it difficult or impossible for workers, many in unions of their own, to get to their jobs. A strike at one company leads to work stoppages at supplier companies.

For the nation generally, the public interest is now a more significant measure of the justification of a strike than one union's grievances against an employer or group of employers.

The recession has made it clearer that the strike is becoming outdated in economic warfare. Workers in unions that had been among the most militant have become painfully aware that contracts guaranteeing higher wages and benefits translate into higher prices, which can mean lower sales and no jobs. Unions have given far more consideration in the past years to givebacks—the surrender of concessions previously won—than to strikes. Givebacks recognize the mutual interest of workers and managers in keeping a company or industry alive, producing—and employing.

Although the unions involved in givebacks promise to regain lost ground when economic conditions improve, the trend toward renegotiating contracts in the light of economic realities could be one of the most significant in the history of labor-management relations.

Finally, the decline of the strike through loss of public support will undoubtedly be accelerated by a recent labor dispute.

The Brotherhood of Locomotive Engineers precipitated immediate economic disruptions in the auto and coal industries with a strike in mid-September. Official estimates were that a million workers would be unemployed within two weeks. Sen. Orrin Hatch (R-Utah), chairman of the Senate Committee on Labor and Human Resources, declared:

"Today we face the challenge of rebuilding and revitalizing our national economy, and the railroads are indispensable to that recovery. We can ill afford to see the progress we have made to date imperiled by a protracted disruption of rail service . . . to see unemployment exacerbated, to see taxable revenues lost, to see inflationary pressures refueled."

And what caused the strike? It was far more a matter of prestige than of economics. The engineers had been offered a 29 percent wage increase over three years. But an industry agreement had not continued the historical recognition of the engineers as the elite of railway workers by guaranteeing them a pay scale at least 15 percent higher than any other union's in the industry.

At President Reagan's urging, Congress ordered the engineers back to work before the full consequences of the strike could be felt.

The move reflected public determination that a strike threatening to immobilize much of the economy could not be tolerated.

This forceful manifestation of support of the public interest against the narrow concerns of one group should spur organized labor to rethink the place of major strikes in America's finely balanced modern economy. □

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